S. HRG. 100-206

THE 1985 FARM BILL REVISITED: COMPETING VIEWS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

MARCH 18, 1987

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE

72-608 WASHINGTON : 1987

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, DC 20402

5161-19

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

PATRICK J. LEAHY, Vermont, *Chairman*

JOHN MELCHER, Montana	RICHARD G. LUGAR, Indiana
DAVID H. PRYOR, Arkansas	ROBERT DOLE, Kansas
DAVID L. BOREN, Oklahoma	JESSE HELMS, North Carolina
HOWELL HEFLIN, Alabama	THAD COCHRAN, Mississippi
TOM HARKIN, Iowa	RUDY BOSCHWITZ, Minnesota
KENT CONRAD, North Dakota	MITCH McCONNELL, Kentucky
WYCHE FOWLER, JR., Georgia	CHRISTOPHER S. "KIT" BOND, Missouri
THOMAS A. DASCHLE, South Dakota	PETE WILSON, California

CHARLES RIEMENSCHNEIDER, *Staff Director*
JOHN PODESTA, *Chief Counsel*
CHRISTINE SARCONE, *Chief Clerk*
CHARLES CONNER, *Staff Director for the Minority*

CONTENTS

Hearing held on: Page
March 18, 1987 1

WEDNESDAY, MARCH 18, 1987

Leahy, Hon. Patrick J., a U.S. Senator from Vermont 1
Wilson, Hon. Pete, a U.S. Senator from California 27

CHRONOLOGICAL LIST OF WITNESSES

Ball, Heather, Texas Department of Agriculture, Austin, TX 1
Boutwell, Wayne A., president, National Council of Farmer Cooperatives 4
Breimyer, Harold F., professor emeritus of agricultural economics, University of Missouri, Columbia, MO 6
Brunthaver, Carroll G., president, Sparks Commodities, Inc., Memphis, TN 8
Daft, Lynn, vice president, Able, Daft & Earley, Washington, DC 11
Moore, Thomas Gale, member, Council of Economic Advisers 12

APPENDIX

Prepared statements:
Leahy, Hon. Patrick J., a U.S. Senator from Vermont 33
Wilson, Hon. Pete, a U.S. Senator from California 33
Ball, Heather, Texas Department of Agriculture 35
Boutwell, Wayne A., president, National Council of Farmer Cooperatives 38
Attachments 40
Breimyer, Harold F., professor emeritus of agricultural economics, University of Missouri-Columbia 46
Attachment 48
Brunthaver, Carroll G., president, Sparks Commodities, Inc., Memphis, TN 50
Daft, Lynn M., vice president, Abel, Daft & Earley 52
Moore, Thomas Gale, member, Council of Economic Advisers 53
Quarles, William K., vice president, government affairs, Sunkist Growers, Inc., Van Nuys, CA 57

THE 1985 FARM BILL REVISITED: COMPETING VIEWS

WEDNESDAY, MARCH 18, 1987

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 2:25 p.m., in room SD-226, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Harkin, Conrad, Boschwitz, Bond, and Wilson.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. The Committee on Agriculture, Nutrition, and Forestry will come to order. I apologize to the witnesses for being late. We want to discuss this matter as much as we can prior to our Contra vote this afternoon. Therefore, I will submit my opening statement for the record.[1]

The panel will consist of Heather Ball, an economist from the Texas Department of Agriculture; Wayne Boutwell, president, National Council of Farmer Cooperatives; Harold Breimyer, professor emeritus of agricultural economics, University of Missouri, in Columbia, Missouri; Carroll Brunthaver, president, Sparks Commodities, Memphis, Tennessee; and Lynn Daft, vice president, Abel, Daft & Earley, Washington, DC. Let us start with you, then, Ms. Ball.

STATEMENT OF HEATHER BALL, TEXAS DEPARTMENT OF AGRICULTURE, AUSTIN, TX

Ms. BALL. Mr. Chairman, I am honored to be here participating in this historic process, and I am heartened, and I think the farmers and ranchers of America are probably heartened by your commitment to examine the wreck that is still going on in rural America.[2] The 1985 farm bill is not doing its job, and we are going to lose our family farm system unless it is amended.

The 1987 Save the Family Farm Act, introduced by Senator Harkin on March 6—S. 658—and Representative Gephardt on March 5—H.R. 1425—is a last-ditch effort to save our competitive system of family agriculture. With the farm crisis deepening in

[1] See p. 33 for the prepared statement of Senator Leahy.
[2] See p. 35 for the prepared statement of Ms. Ball.

America's food belt; with farm debt totaling more than the combined foreign debts of Brazil and Mexico; with consumers paying more and more for food and farmers receiving less and less of that food dollar; with the Reagan administration proposing decoupling, which means pulling the price support rug out from under farmers, and paying farmers to get out of business, the Harkin-Gephardt proposal is the only one on the table that would provide a stable foundation based on the marketplace and not on Government subsidies.

In addressing the structural problems in agriculture, it also provides family farmers and consumers with a democratic process and way to shape the direction of our food economy, and without costing massive Government and taxpayer dollars.

The Harkin-Gephardt bill would slash our subsidies while allowing family farmers to work their way out of debt. It gives farmers a measure of control over their agricultural production. Despite all this talk of free markets, our domestic agricultural system is a controlled system. Right now it is controlled for the benefit of vertically integrated agribusiness corporations, shippers and processors and to the detriment of our family farmers. Since 1981, we have lost over 500,000 family farmers and another 280,000 are on the brink of broke, their economic stability being subsumed to the profit margins of agribusiness.

In order for international distributors of wheat to make a profit this year, the U.S. family farmer received $2.45 on a bushel in January 1987. Just 6 years ago, they were getting $4.21 per bushel, and it costs them on an average $4.72 to produce that bushel.

Under the Reagan administration, the lowering of inflation rates that we have all enjoyed has been borne in part on the backs of our family farmers. Some have been crushed by that burden. Others cannot hold out much longer. The farm share of the food dollar has been plummeting in the last 6 years, while food expenditures have gone up 30 percent since 1981. In fact, farmers' share of the food consumption expenditures went down $18.8 billion if you take out inflation.

The food processors and distributors have accounted for most of the rise in food consumption expenditures. And so, you see firms like Kellogg's reporting a 44-percent increase in profits last year; Cargill, up 66 percent. With the Harkin-Gephardt bill, farmers have a process to regain control of their production. They will vote every 4 years on setting production controls, and gearing production to meet demand, providing returns that cover their cost of production. The U.S. Department of Agriculture would determine marketing demands that would include domestic and export demand, food aid requirements, carry-over and reserve requirements. This would feed into a progressive set-aside formula based on increasing farm acreage although no set-aside would be more than 35 percent for crop.

This administration may talk about helping family farmers, but in fact, the largest 1 percent of the farmers, in 1980 they received 7 percent of all Government payments. This year they received over 13 percent. Our bill is targeted toward family farmers. It has a disaster reserve fund in it, a mechanism for multilateral trade agreements, and a system for farm debt restructuring.

According to a study by Texas A&M University, farmers in Texas would have a better than even chance of getting at least a 5-percent return on equity under the bill. In 1985, they received a −13.1 percent. The farm share of the food dollar would return to about 1981 levels—about 30 percent.

The bill's debt restructuring plan would allow farmers to work their way out of debt and stay in operation rather than leaving their farms to investors and abandoning their debt to banks and taxpayers. Through price restructuring alone, we save about 44,000 family farms. Another 120,000 would be able to work their way back to financial health within 10 years under the bill's debt restructuring plan. Another 300,000 family farmers that are now living hand to mouth will be able to provide decent incomes for their family and stimulus for their rural communities.

The Harkin-Gephardt bill, I think most importantly, also provides a course between the rock of free market mythology and the hard place of protectionism.

The Harkin-Gephardt bill offers the third option of multilateral trade agreements. This is a concept that many in Canada and the European Economic Community have been begging for, given the strains on their own economies caused by the world prices. It provides a rational foundation for American trade policy, centering its operation in negotiations and management. It realizes the primary American interest is domestic price stability and from that international agreements flow. It allows our major trading partners to resolve their debt problems, and it allows the less developed countries to invest in their own agricultural production.

The current world price is so low it encourages many less developed countries to rely on imports rather than investing in self-sufficiency. The Harkin-Gephardt bill, although on the one hand it increases food aid to less developed countries, also provides an incentive to them to invest in agricultural self-sufficiency on their own. It would allow Argentina, Brazil, and other debtor nations to pay off their debts through increased revenues, and the enforcement mechanism, the thing we call a payment-in-kind hammer, or a PIK-hammer, in the form of huge U.S. grain reserves, is already in place. Any grain exporting country which tries to lure a customer away from someone else by discounting on the agreed upon world price would be swiftly countered by an offer by the United States of bonus bushels to stay with that existing trade partner.

Under the Family Farm Act, farmers would vote on participation. Tax expenditures would be slashed. Farm wealth and power would be decentralized. This is the vision on which our democracy was founded. Individual, small-scale entrepreneurs creating wealth from the production of goods, allowing that wealth to sort of percolate up, observing democratic principles in the control of our economy in order to preserve democratic principles in our political life as well. Thank you.

The CHAIRMAN. Thank you very much.

Mr. Boutwell.

Mr. BOUTWELL. Thank you very much, Mr. Chairman. I am Wayne Boutwell, president of the National Council of Farmer Co-

operatives. I do have a complete statement, Mr. Chairman. I would like to put it in the record, and I will summarize it.[3]

STATEMENT OF WAYNE A. BOUTWELL, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. BOUTWELL. Mr. Chairman, 3 years ago, we testified before this committee that agricultural policy in this country had three basic objectives to achieve. One was to protect farm income; two, provide for an orderly marketing of our farm products; and three, have a dependable supply of agricultural products at reasonable prices for consumers.

Based on the activities of the market during the early 1980's, it became clear that we had to add a fourth objective to that list of three, and that was that we had to become price-competitive again in the international market for one very simple reason, Mr. Chairman. We had at that point in time embarked on a program to cut production of our program crops in this country, and we successfully reduced wheat production some 10 million metric tons. At the same time, our foreign competitors expanded production that same year by 10 million metric tons, and so the result was that the world total supply and demand was no better off.

In the meantime, our exports went down 3 percent, and foreign exports went up 7 percent. So what we were in the process of doing in this country—because we were hung on a very high internal price—was beginning to try to cut production in order to get the price up. We had historically done this in our country and our foreign competitors had realized that when we cut, they have an opportunity to expand and take our markets, particularly with the very high loan rates that we had at the time.

And so we were very quickly having an agriculture that was on a downward slope into the ground, if you will, relative to our international markets. So at that point in time, we proposed a concept called the marketing loan program. On page 2 of the prepared statement, I have put together two illustrative charts to show you the difference, if you will, between how those two programs operate. The traditional nonrecourse loan program is illustrated on the left. (See pages 40–41.)

You will see the cross-hatch portion is the target price protection, the difference between the loan rate or the market price, whichever is lower, and the target price. You will see that when the market price goes down to the loan level, you start to pick up Government costs associated with increasing Government inventories in the form of net loan activity, in the form of storage payments, and handling charges and related Government costs.

So, from the Government's standpoint, the cost of the traditional program is the target price portion plus the cost of the surplus removal and storage program. On the opposite side, the marketing loan program is one whereby the income to farmers is maintained with the target price approach. But at the same time the price is allowed to continue down to be competitive through a loan deficiency account, or allowing the loans to be repaid at the world market

[3] See p. 38 for the prepared statement of Mr. Boutwell.

price such that the income support to farmers remains the same. The difference is that you are moving the products on the market to maintain those market shares in the process.

That is the basic difference between the two programs. From the standpoint of the income to farmers, obviously the two are the same. The question is what happens under those two programs as viewed by our competitors overseas? Well, at the time we indicated support for that program, we felt it would; one, maintain farm income; two, allow us to be price competitive in the international market; three, reduce price depressing stocks; four, reduce the need for an acreage adjustment program, but when an acreage adjustment program was needed, we felt like it would be much more effective because of higher participation; five, encourage our competitors to adjust production when supply became in excess; and six, be cost effective.

Well, I am glad to say, Mr. Chairman, that because this committee with the leadership of a few key Senators, chose to implement the marketing loan for three commodities, we now have case studies that we can use to evaluate this program compared to those that do not have a marketing loan program. On page 5 of the prepared statement, you will see tables on the three commodities: rice, cotton, and honey. (See pages 42 and 43.) Most people forget that honey has a marketing loan program. This illustrates what has happened since that program has been implemented.

I will call your attention to the far right-hand column of those tables, and suggest to you that all of those changes are in the right direction. Exports in every case are up. In rice, 36 percent. In cotton, 340 percent. Stocks in the case of rice are down 13 percent. Stocks for cotton are down some 40 percent. In the case of honey, it was not an export problem. The fact was that we were importing most of the honey that we were consuming in this country, and most of our domestic honey was going into CCC inventory. Now imports have been reduced by some 30 percent, and Government stocks are down some 11 percent.

So you can see from those commodities that had the advantage of the marketing loan program that all of the directional changes are in the right direction in terms of a recovery. In terms of the belief that it would also encourage our competitors to help us adjust supply when it becomes in excess, it is also nice to note that in the case of cotton, there has been a reduction of some 8 million acres in foreign acreage this year as a result of the marketing loan program. There has been no change in the foreign production acreage of rice.

In terms of being cost effective, these three commodities had Government expenditures of some $3.2 billion in 1986. Projections are that by fiscal year 1988, they will be down to $1.8 billion, or some 50 percent reduction in the cost of the programs of those commodities. Very simply because you are working off those inventories and in the case of cotton and honey, those prices are responding positively.

On page 6 of the prepared statement are similar tables for those commodities without the marketing loan program. We did, as you know, try to reduce the loan rate to get competitive, and then for corn, we also implemented a certificate program, again, to try to

get price competitive. I will just call your attention again to the right-hand column. There is a mixed bag there. Stocks in the case of wheat and feed grains and soybeans are all up compared to stocks being down for all commodities with a marketing loan program.

While the cost of the programs for these commodities is estimated to be down some 7 percent by fiscal year 1988, it pales in comparison to the 50-percent reduction for those commodities with the marketing loan program. I might just add, parenthetically that U.S. stocks for these commodities from 1984–85 to 1986–87 will increase by 225 percent while during the same period our foreign competitor stocks have only increased 14 percent. That gives you some idea of the relative burden of adjustment in the international market.

The CHAIRMAN. Thank you.

Mr. BOUTWELL. In conclusion, Mr. Chairman, it is clear that the marketing loan program has worked as intended, and better than expected. It was not designed, as some would suggest, as a price depressing mechanism, but rather over the long term to be a price enhancing mechanism. Very simply, if we tell our competitors that we are going to meet their price, it is in their best interest to take actions to help raise the level of prices. So, therefore, Mr. Chairman, we believe that the marketing loan program is not only a farm bill, it is an ultimate trade bill, and clearly it is a rural development bill because of the economic activity associated with moving product.

The CHAIRMAN. Thank you. Professor Breimyer.

STATEMENT OF HAROLD F. BREIMYER, PROFESSOR EMERITUS OF AGRICULTURAL ECONOMICS, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Mr. BREIMYER. Mr. Chairman, and members of the committee, I am Harold Breimyer. I am recently retired as professor at the University of Missouri, as Senator Bond can verify, and may I say, Mr. Chairman, that we in Missouri associated with agriculture are very pleased that Senator Bond made it to the Agriculture Committee.[4]

The CHAIRMAN. We are expecting great things from him, Professor. In fact, many of us who have worked here for many years now figure we can turn all our duties over to Governor Bond, and let him take a turn burning the midnight oil here 7 days a week.

Mr. BREIMYER. In addition, I am the senior member of any panel these days. I had 30 years here in Washington before I went to Missouri working with farm programs. I date from the beginning of farm programs.

I have been asked to comment on targeting. And targeting has become something of a buzzword, and it is a little bit unfortunate. Program benefits have always been targeted. It is not a case of umbrella turned upside down, pennies from heaven. Payments have always gone to specified recipients and for particular operations performed. Payments have been made with no regard for the personality of the recipient, and least of all to his income or financial

[4] See p. 46 for the prepared statement of Mr. Breimyer.

status. The payments have been made by a dry formula based mainly upon acreage base and operations performed.

Questions are being raised these days, as to whether the income or debt status of the recipient, the farmer, should be taken into account. And my answer on this, Mr. Chairman, is a firm no. Commodity and acreage programs can do many things, but they are not individualized welfare instruments.

If we want to give income assistance, as such, then the negative income tax is the proper device, and for debt aid, which I think is the most pressing issue right now in agriculture, I support some renegotiating instrument to get loans renegotiated down to carrying capacity. The Farm Bureau and many others have proposed just that.

Now what targeting is really addressed to——

The CHAIRMAN. Have you suggested what the cost of that renegotiation would be?

Mr. BREIMYER. I beg your pardon?

The CHAIRMAN. Do you have any estimation of what the cost of such a renegotiation would be?

Mr. BREIMYER. It all depends upon the terms. Renegotiation would not be fully funded federally, because it would be sort of a lender-pay-part and Government-pay-part arrangement but some estimates are not terribly high, $3, $4 or $5 billion. But it all depends upon the degree of assistance given. The cost is not astronomical. Furthermore, there are some costs in not doing anything, such as FDIC costs.

Now the target of targeting really is the desired structure of agriculture and the farmer's place in it. If I have a lot of time, as a veteran of the 1930's I could tell you that from the beginning farm programs were seen as a way to help the ordinary operating farmer stay in business. At times there have been some special features, such as minimum cotton allotments and such. Now, we have limits to the size of payment, which have some bearing on structure. By and large, I think programs have been a little more helpful to the monoculture cash crops, but also in general programs have been almost neutral with regard to structure.

Why is targeting such an issue? The answer is easy. Because so much money is being paid out and some goes out in large chunks. Credit the Crown Prince of Liechtenstein for getting this in the picture. In farming country, his name comes up more often than anyone's except Oliver North's. With direct payments on the order of $15 billion, there is going to be a sensitivity to where they go, and the prevailing sentiment everywhere is to give the larger part to moderate-sized, hardworking family farmers.

Now, I am going to turn professorial for a moment. A lot of the problem arises because direct payments are not just transfer payments, and I suggest, Mr. Chairman, that they perform three different functions.

The first role of direct payments is that they are an attraction for idling land and a reward for doing so. They are a form of rent. To some extent payments are that.

What is not often said is that under the 1985 farm law, they are also an offset to the low loan rates that Mr. Boutwell was talking about, the very low loan rates. Rates were set low to thwart the

European Community and so on, and then we used direct payments as an offset, to protect farmers.

But a third part of direct payments really is of the nature of an income supplement. Money paid out in recognition of farmers' needs, more than farmers could get just from commodity programs. Now, the point I argue is that the idea of scaling payment rates up or down, targeting them, only applies to the third part of payments. With regard to land idling, in my judgment we should pay a straight land rent, call it paid diversion. Pay it for big farmers and small. It is necessary to bring big farmers in to get enough land idled.

I think that an offset to low loan rates should be so much per pound or per bushel.

But if, let us say, $3 or $5 billion of today's $15 billion of payments really is intended to help farmers who are in income trouble, then that part can be scaled and directed and targeted. I would confine this part to farm operators and I suggest the formula payment be scaled upward for the moderate sized operator, and then downward gradually for the progressively larger one.

Now, if I may have one more minute, Mr. Chairman. These income supplements as received, or as might be revised, are not pennies from heaven. They would go to specified recipients, and I argue strongly that whenever Federal dollars are paid out, the recipient must do something to qualify for them. Any income supplement should go only to farmers who take part in all the programs. I argue firmly against the 0-92 option.

After 54 years of direct connection with farm programs, I am convinced that two considerations override all others. One, is that programs must be reasonably effective in doing what they are supposed to do, and secondly, they must win and hold public assistance. Citizens object to huge payments to the Crown Prince of Liechtenstein, or for that matter, of California.

They do not want to let a farmer get paid to go off on a year long vacation while letting his land lie idle. There has to be a quid pro quo in terms of performance by the farmer in exchange for whatever income help we give him. Thank you very much.

The CHAIRMAN. Thank you very much.

Mr. Brunthaver.

STATEMENT OF CARROLL G. BRUNTHAVER, PRESIDENT, SPARKS COMMODITIES, INC., MEMPHIS, TN

Mr. BRUNTHAVER. Mr. Chairman, members of the Senate Agriculture Committee. I appreciate the opportunity to meet with you and to discuss the concept of decoupling as it relates to agricultural production adjustment programs.[5]

There are many types or visions, if you will, of decoupling, ranging from pure decoupling on the one side, to program decoupling on the other extreme.

Acreage decoupling would authorize deficiency payments for a program without requiring the planting of a particular crop. The proposed 0-92 is a limited application of the acreage decoupling

[5] See p. 50 for the prepared statement of Mr. Brunthaver.

where only grass or fallow can be used to replace the program crop on permitted acreage. Rice decoupling means that the deficiency payment is fixed at a specific amount, and does not change with the average price received by farmers.

Program decoupling relates to the phaseout of deficiency payments over time.

Currently, producers become eligible for deficiency payments by doing three things. First, they have to sign up for the program. Second, they have to idle the required ARP acreage; and third, they must plant at least 50 percent of the permitted acreage for reduced payments. Or 100 percent for the full payment. With an acreage decoupled program, the producer need only signup and idle the ARP acreage that is, base—ARP. The permitted acreage, that is the difference between the base and the ARP may be planted to any crop including other program crops, grass, or the land may be left idle.

For purposes of this discussion, I will concentrate only on pure acreage decoupling. We are not addressing haying and grazing of the permitted acreage or phasing out of payments, or changing the ARP requirements, or the level of the payments. All of these are separate issues. The question is: Should the law require the planting of a specific program crop on the permitted acreage?

The advantage of coupled payments, a continuation of past practices, is more precise control of planted acreage of specific program crops.

Without decoupling, the program administrator can control more precisely with the combination of ARP and planting requirements, the planted acreage of a program crop. The question is whether the program administrator can more accurately judge the planted acreage requirements of a particular crop better than the combined judgment of thousands of individuals evaluating, through the marketplace, the expected supply and demand for a given crop. Coupled payments also give the illusion that farmers are doing something for their payments. Without that illusion, the payments take on more the appearance of welfare payments.

The advantages of acreage decoupling are increased production efficiency, number one, and number two, more accurate transmission of market signals to the production decision.

Production Efficiency

Each farm in the United States is different. Each producer has different land, different equipment, different capital resources, and different talent. As farming operations change from livestock to crops, as farm operators change, as capital resources change, as production practices change with new technology, as demand changes; the need to change cropping patterns from some historic base should be evident.

Currently deficiency payments have become so large, relative to total net income, that producers have no real choice but to participate in the Federal farm programs. The noncompliers net return per acre has dropped dramatically compared with the participator with the advent of the 1985 act. The difference is expected to widen

further with the 1987 crop, as expected deficiency payments increase.

The table in the prepared statement, I will pick out only one, and that is corn. The nonparticipator in the corn program in 1982 had a net farm income, or a net return per acre, of $128.38 compared to the participator who netted $115.16. (See page 51.)

So the nonparticipator actually did better than the participator in 1982. In 1984 and 1985, the participator gained ground. The nonparticipator lost ground, and by 1986, with the 1985 act in place, the net return of the nonparticipator dropped to $28.92. The net income of the participator jumped to $130. And next year the nonparticipator is expected to go on down further to $21 where the participator up to roughly $200 net per acre.

The CHAIRMAN. Let me make sure I understand you. This year, what is the participator's net per acre?

Mr. BRUNTHAVER. This year the participator in the corn program for the 1986 crop should net approximately $130 per acre.

The CHAIRMAN. And 4 years ago he netted how much per acre?

Mr. BRUNTHAVER. Four years ago, roughly $115 per acre.

The CHAIRMAN. About $15 an acre more?

Mr. BRUNTHAVER. Right.

Senator BOSCHWITZ. That is net above variable cost?

Mr. BRUNTHAVER. That is correct.

Senator BOSCHWITZ. Pardon me?

Mr. BRUNTHAVER. The figures in the statement are returns above variable costs. The variable costs do not include an allowance for land costs.

Senator BOSCHWITZ. But your figure, is it net above all costs or net above variable costs?

Mr. BRUNTHAVER. It is net above variable.

The CHAIRMAN. My understanding is net.

Mr. BRUNTHAVER. Net above variable costs. There is no land factor taken into account.

Senator BOSCHWITZ. In other words, the cost of the land and the cost of the nonvariable costs would come out of the $130?

Mr. BRUNTHAVER. Yes, that is correct.

If producers must participate in the farm program, which I think by and large they must, given this arithmetic, and if they must plant the program crop, then for all practical purposes, the adjustments in cropping patterns that should change over time to enable American farmers to be more efficient are prevented from happening. Farmers are locked into cropping patterns which were relevant 5 to 10 years earlier, and they are locked in by Government edict. Some farmers are prevented from planting as much corn as they economically should while others are forced to continue planting corn even when their variable costs exceeds the market price for corn in their area.

Ex-dairy farmers are forced to plant soybeans because their corn base reflects hay and pasture requirements of past years. Deregulated transportation rates and changing demand patterns cannot be reflected in changing cropping patterns.

The CHAIRMAN. Thank you. I will have to put the rest of your statement in the record. The panel has already used up Mr. Daft's and Mr. Moore's time, and we must let them speak. Mr. Daft has

already given so much of his time to this committee in the last couple of months by helping prepare some of our material.

Mr. Daft.

STATEMENT OF LYNN DAFT, VICE PRESIDENT, ABLE, DAFT & EARLEY, WASHINGTON, DC

Mr. DAFT. Mr. Chairman, members of the committee, it is a pleasure to appear before you.[6] I have been asked to represent the case for staying the course, for staying with the present policy. And I am pleased to do that. I feel comfortable taking that position this afternoon. Before I make the case, I would like to make a couple points prior to that.

The first point I want to make is to note what considerations are not responsible for my coming to the conclusion that the present policy is the best one for the future.

It is not because the 1985 farm bill is a perfect bill, without fault, without need for modification. It clearly does need modification. The soybean loan rate is perhaps the most prominent example of something that is out of kilter. It needs to be attended to, and there are other things, I am sure.

It is not because I expect the 1985 farm bill to quickly realize an adjustment in the economic disequilibrium we now have, or to be painless. It will not be painless, and it will not be terribly fast.

It is not because I consider the present policy to be as cost effective as it could or should be, or that I believe the benefits are as equitably distributed as they might be.

Neither is it because I detect any great wellspring of support from the affected interests for the measure. At best, I have the feeling they tolerate the policy as it is now in place.

So at this point you are probably wondering, well, then why do I support a continuation of these policies.

The CHAIRMAN. The thought crossed my mind.

Mr. DAFT. Before I get to that, let me add one other qualification, and that is to define the present policy. The policy, as I see it, is to provide a flexible set of authorities and a general set of objectives and parameters to move down the road toward an agricultural sector that is in greater equilibrium. It is to do that through lowering prices, to help us become more competitive in international markets. It is to do it by replacing income supports for price supports, and it is to do it through fairly aggressive use of acreage diversion.

The objectives, as I see them, are to attain the fullest possible use of our total mix of resources: human, natural and capital. To allow markets to guide resource allocation in the main. To have an agriculture that is competitive in world markets and to be working to free up those markets and open them. To protect agricultural interests from extreme economic instability, and substantially, but not totally to make agriculture independent of the financial support of the Federal Government.

Those are the general parameters. They are in place and I think represent a disirable policy. Not one that is locked in concrete. It is

---

[6] See p. 52 for the prepared statement of Mr. Daft.

obviously going to have to be changed. Now what is the case for staying the course. I would say the case is the following. First, we have the right objectives in my opinion: the objectives of a predominantly market oriented agriculture that is competitive in world markets, and dependent on Federal policy only for protection from major economic disturbances.

The second point is that this policy is working. And there is evidence that it's working. It is not working as fast as a lot of people would like, and you are going to hear a lot about that, that it is not working as fast as they would like. But exports have rebounded for some commodities, and forecasts show that they are expected to turn up for others, albeit slowly.

Production in some of the foreign countries is already giving evidence of receding. There are fewer acres planted in some of our major foreign markets. The brakes are being applied on domestic production to the point that stocks of some commodities are down, and forecasts for stocks of other commodities will be coming down if present forecasts are realized.

Cash farm income has been fairly stable. It is up and down. This year it is forecast to be up somewhat from last year, but it has been protected by the very substantial Federal payments.

The third point that I would make is the absence of superior alternatives. With any of the alternatives you are going to look at, whether it is mandatory supply control, or a decoupling or any of the others, you have to look at the total gamut of tradeoffs between income, domestic price, export price and budget costs. It is my judgment, based on the analysis that I have seen to date, that none of the alternatives that I have examined are superior to the outcome of the present policy.

Finally, there is a strong need, in my opinion, for a stable policy. A lot of investment decisions are waiting to be made, waiting to determine whether there is going to be continuity of the policy into the future and we are going to stick to it. And unless we stick to it, we are going to destabilize the farm economy further, thereby postponing these needed decisions.

So what I am saying is, yes, I think the general parameters we have established with this policy are the right ones, and that we should stick with them, but there are changes to be made, and we can talk about those changes in the coming weeks. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Daft.

Mr. Moore.

STATEMENT OF THOMAS GALE MOORE, MEMBER, COUNCIL OF ECONOMIC ADVISERS

Mr. MOORE. Thank you. Let me apologize for being late.[7] It is a real pleasure to be here, to appear on this panel before the distinguished members of the Senate Committee on Agriculture, Nutrition, and Forestry.

U.S. agricultural programs have resulted in enormous budgetary costs, benefits that do not reach those most in need,

[7] See p. 53 for the prepared statement of Mr. Moore.

huge surpluses of farm products, major trade disputes with other countries, and great harm to well-functioning international markets. This is why I do not think we can stay the course.

Programs instituted——

The CHAIRMAN. For those reasons you say we should not stay the course?

Mr. MOORE. With the current policy. That we should change.

The CHAIRMAN. We should not adhere to the 1985 farm bill that the administration supported and signed?

Mr. MOORE. We should modify it in ways that I will explain.

The CHAIRMAN. I just wanted to make sure I understood.

Senator BOSCHWITZ. What was the reason? I could not hear you.

The CHAIRMAN. I just wanted to make sure I heard correctly. Some administration officials tell me we should stay with the 1985 farm bill, and Mr. Moore is saying we should not.

Mr. MOORE. It is a matter of nuances, Senator.

The CHAIRMAN. I understand.

Mr. MOORE. The question is whether we should modify or amend the 1985 act. We have proposed, that is the administration has proposed some amendments to it. Because there are huge budgetary costs, the large surpluses, major trade disputes, and great harm to well-functioning international markets.

Programs instituted at the Federal level have distorted economic incentives sufficiently to create serious long-term problems. Programs for some commodities have imposed substantial losses on consumers.

The Food Security Act of 1985 and its predecessors have helped to create new problems that afflict the U.S. agricultural sector, and have failed adequately to solve some of the old problems. The fundamental flaw is that the Federal farm subsidy payments are linked directly to farm production. Because farmers are paid subsidies—explicit or implicit—that are proportional to their output, they are encouraged to produce even more. Excess production must be either stockpiled by the Government, dumped on the world markets, or restrained through inefficient land or production restrictions.

Two of the major features of the Food Security Act of 1985 are the high target prices and the relationship between Government income-support payments and production decisions. The limited decoupling of Government income payments and production decisions provided by the 50–92 provision is insufficient. This small step in the direction of decoupling is unlikely to have any major effect on the current chronic surpluses and overcapacity within the sector.

The cornerstone of any comprehensive reform of agricultural policy is the elimination of incentives to produce for Government programs rather than for the market. As long as such incentives exist, surpluses will be generated. As a consequence, the Government will attempt to manage supply by acreage reduction programs, voluntary diversion, acreage set-asides or production quotas.

The sector's capacity to produce under the stimulus of favorable economic conditions and large Government subsidies is extremely high. As a result, the cost of agricultural commodity policies that attempt to restrain production and enhance prices through land controls are, in short, toweringly expensive. Moreover, a program

attempting to limit supply by renting land from farmers, by outright purchase of farm commodities, or by mandatory supply controls cannot avoid directing its benefits to the largest producers. Although increases in the acreage reduction and the voluntary diversion programs can provide some short-term assistance in reducing current chronic surpluses, this benefit could only be achieved by incurring other costs. These other costs include the losses imposed upon consumers, reducing markets for the farm supply industry, and increasing costs for the food processing and distribution. Moreover, acreage controls result in the excessive use of other inputs, which partially offset the desired production cutback.

All attempts to limit production will impede the international competitiveness of the U.S. agricultural sector, both in cost and output. In acreage reduction programs, for example, farmers must retire a certain fraction of their acreage base, for example, 20 percent in the case of corn, to receive deficiency payments. Thus, every firm in the industry is asked to spread its total fixed costs over 80 percent of its potential output. This scheme raises the average cost of production, relative to competitors who suffer from no such constraint. Moreover, such supply management policies create an artificial scarcity of farmland, bidding up its prices to a higher level than otherwise would have occurred.

Finally, limiting output places the United States in the position of being the residual supplier to world commodity markets. Whatever growth occurs in world food markets is allowed to be tapped by other major competitors. The result, U.S. programs operate to improve the position of major competitors, in terms of both their access to major markets and the cost of their agricultural policies.

A comprehensive policy to foster and maintain a vital and progressive U.S. agricultural sector would contain four major components: complete decoupling, targeting, resource conservation, and negotiations and trade cooperation.

Under complete decoupling, payments to farmers would not be linked to current production, either through subsidies or artificially high prices. Production decisions would be based on economic incentives, not Government policy.

Income support could also be decoupled from prices. Farmers would receive a known payment regardless of what they plant and the market price they receive. The income support that has been decoupled from production and prices should be phased out over time.

The CHAIRMAN. Thank you, Mr. Moore.

The committee wants to look at those aspects of the farm bill that are not working as well as those that are. The committee initiated a policy this year of having hearings not only in Washington, where we can hear experts such as yourself, but also other States where we can hear the people most directly affected by the farm program.

It is obvious we do not have the problems that some other countries do with their farmers. Our farmers are hardworking and they are extremely productive. As was said at one of our hearings, that is both good news and bad news. But I prefer to hear that our farmers are hardworking and productive.

I am concerned that they have to work under a national trade policy that is not working, and this is not just in farming. We let the Japanese get away with anything they want in manufacturing. Here we are the greatest, the most powerful nation in the world, and we act like a pussycat, letting the other nations push us around on trade policy.

We have a lack of a credit system responsive to today's needs. We have a serious shortfall in farm income. Now, as we have gone around the country, and will continue to next week, we do find a lot of farms that are doing very well. But we find more and more that are not. Thousands and thousands of farms disappear every year.

We have six differing views here today. And the purpose for that is to demonstrate that there are no easy answers to the farm program. If there was some easy solution, this committee would vote it out and have it accepted on the floor of the Senate and accepted by the House, and signed by the President. That would make our job easy.

I think every one of the six panelists here would have to admit if they were suddenly given the charter to write a farm policy for this country that would be accepted without any hesitation throughout the Government, it would be a difficult task.

This committee has a lot of work ahead of it. We are committed to having a trade bill ready for consideration, and soon by the full Senate. We are moving ahead with legislation to keep the Farm Credit System healthy.

We have let the Farmers Home Administration know that the policy they started earlier this spring is not acceptable to this committee, and unless they want to face major legislative action, they will have to change it. Now we have really come down to some basic questions.

The proponents of the 1985 farm bill argued that we could regain our export markets. Do any of you want to start off by telling me that you feel that the 1985 farm legislation is going to help us regain our export markets? Are you willing to state flatly that it will? Shall we start with you, Ms. Ball?

Ms. BALL. I do not know if we are talking volume or value, but it is pretty clear—even USDA admits—that this coming year, we are going to see another 1 percent drop in export value over this past year. And this past year was disastrous. We are looking at a shrinking world trade market because of world economic conditions. Trying to do something that is hurting and driving out our family farmers for a goal that we cannot achieve just seems insane to me.

The CHAIRMAN. Mr. Boutwell.

Mr. BOUTWELL. Mr. Chairman, I cited some of the results that we have seen in the program. I think in the case of those commodities where we were in no uncertain terms price competitive, we have seen a substantial return in terms of exports. In fact, we are above the 1984–1985 export levels and closer to our historical share of the market.

Where we are still in trouble is in wheat, feed grains and soybeans. In fact, in the case of soybeans, exports were actually down under the 1985 farm bill. So there are some things that we still

have to do in the area of trade, but at least we are going in the right direction for exports under this program.

The CHAIRMAN. Mr. Breimyer.

Mr. BREIMYER. Many of us were very skeptical, even 2 years ago, that price cutting would change very much our export sales for the simple reason that our competitors would follow suit. If you keep them at a high price, it would work, and the world market is flat. I think we are simply deceiving ourselves and think that unless we are willing to simply demoralize markets totally and double the amount of money we are paying out with what you would be doing if you went to marketing loan on the wheat and the corn, it is extremely difficult to improve our export trade very much. Our biggest hope has to be a revival of world trade. Thank you. It is all yours.

Mr. BRUNTHAVER. We are seeing evidence of the export market starting to increase. U.S. corn exports last year were at a low 1.2 billion bushels. We thought they would go be reduced to 1.1 billion. We are now seeing evidence of 1.3 billion to 1.4 billion on non-EEP subsidized corn exports.

Japan is increasing. Korea is increasing. China is the most significant of all having taken approximately 1.5 million of corn and may get up to 3 million corn before this year is over.

Last year's wheat exports, were 923. The year before at 848. This year looks like a 1.45 billion. So progress is being made even in the [illegible] segment here. This is encouraging.

The CHAIRMAN. Thank you. Mr. Daft.

Mr. DAFT. I can only reinforce what Messrs. Boutwell and Brunthaver have said. And, although it is easy to overstate the case of what lower prices will do for exports—and I believe in the debate over the 1985 farm bill there was overstatement of the case—still the data show that exports are increasing. And as Mr. Brunthaver pointed out, the forecasts, most of the export forecasts right now for this coming year show feed grains up about 200 million bushels. Wheat came up last year. It should come up farther this year. We have already spoken about some of the other commodities, so, I think the answer to your question, Mr. Chairman, is: yes.

The CHAIRMAN. Thank you. Mr. Moore.

Mr. MOORE. Lower prices clearly will increase exports, but that is not the long-run solution. We have a world situation where we, the Common Market, the Canadians, the Japanese, are all following self-defeating policies which are balkanizing the world agricultural markets. What we must do is move toward a system where we no longer have these high supports which encourage overproduction everywhere, in the Common Market, in Japan, elsewhere and work together. The administration is working in GATT and in the OECD and at the Summit to rationalize agricultural policies. That is the only long-run solution.

The CHAIRMAN. But it will also require some move in unison by ourselves and other trading partners.

Mr. MOORE. Excuse me.

The CHAIRMAN. It will also require us to move in unison.

Mr. MOORE. It will be helpful. I think we are——

The CHAIRMAN. And it will also require some of our allies to tell the truth about their activities.

Mr. MOORE. They are beginning to tell the truth. They are, in fact, facing up to this. I have been going to the OECD meetings, and they are talking about this. They are talking about this at the Summit. There is progress, but we have to be willing to bite the bullet, too, and eliminate our harmful policies because we are part of the problem. We are not the sole problem, but we are part of the problem.

The CHAIRMAN. I will try to go in the order of the Senators as they arrived, and Senator Conrad, you would be next.

Senator CONRAD. Thank you, Mr. Chairman. I want to thank you for holding these hearings because I think this is precisely what we need to be doing to sort out the mess. And it is a mess. I have just once again come home from a period of time out in my State, and with each passing day, the news gets worse. I was just called before I came here, and the biggest motel-hotel complex in the capital city is just going through foreclosure. It is just one set of bad news after another. I must say I was fairly amazed to hear someone seriously suggesting we stay the course because I would say that is staying the disaster. That is what we have in my State. The suggestion that we stay on this course is not one that would play well in Bismarck or in Jamestown or in any of the other cities of my State. We have record costs, up tenfold in 6 years. We have record failures. In my State, the State university has a study that indicates we could lose, if we stay on this current course, half of our farmers in the next 5 years. That is not an outcome that I find acceptable.

We have collapsed prices. Exports on a volume basis up only slightly. They certainly have not responded in corn. They have not responded at all. Value on a value basis is down sharply. I honestly do not know how anybody with any business sense could look at what we are doing and say this makes any sense.

We have collapsed prices. The value of our exports is down. For the life of me, I cannot understand. I have a masters in business administration. They did not teach me in business school that it was wise to be buying exports when you are below the cost of production. So I am fairly staggered at the notion that we stay on this course.

I am interested in some of the concepts that have been discussed here. I find myself in agreement with many of the people that have talked. I hear a good bit of common sense around this table although there are obviously sharply contradictory notions coming from several of you. I would like to pursue, so we get on a factual basis, a couple of these matters.

One is the marketing loan. What is your analysis of what a marketing loan would cost, the additional cost if it was applied to wheat and corn?

Mr. BOUTWELL. Senator, that is somewhat difficult to analyze as you well might imagine. We have historically maintained a price support floor for the commodities in this country so we have never really had any data observations in terms of where the supply and demand curve is underneath of the loan rate.

So you have to go back and make some assumptions with regard to what price level would be derived at a market equilibrium level

in order to calculate that. Based on our best guesstimates, applying the full marketing loan to, say, wheat, feed grains and soybeans at the margin would increase Government costs somewhere in the neighborhood of $3 to $4 billion over the next 2 to 3 years.

Senator CONRAD. $3 to $4 billion over the next?

Mr. BOUTWELL. Two to three years.

Senator CONRAD. Let us just go over that definition again.

Senator BOSCHWITZ. Is that per year?

Mr. BOUTWELL. No, over the next 2 to 3 years.

Senator CONRAD. $3 to $4 billion over the next 2 to 3 years; is that—I want to get to some other questions and get them out on the table, too, because we have a series of panelists here who have a different point of view. I am interested in the notion of decoupling. I do not know if you have read the book catch-22. There is a great description of decoupling in catch-22. I do not know, Senator Boschwitz, if you have had a chance to read it.

Senator BOSCHWITZ. Maybe I should.

The CHAIRMAN. I read that book. I do not remember that part.

Senator CONRAD. I am going to bring it next time because it is very interesting. Talking to a fellow and he had explained to him how he could get paid for not producing corn. And this fellow was pretty sharp and right away he said, you know, he had some hogs he did not want to raise. He was wondering if he got paid for that. Seriously, and I understand the underlying economic logic of what you have presented, Mr. Moore. I mean I must say you have a compelling argument in terms of the underlying economic logic. The problem that I see, and that I would like explored here is politically how accepting do you think people are going to be of the notion that we just pay people not to do something?

Mr. MOORE. Well, Senator, you are much more of an expert on politics than I am. I am simply a humble economist, but as an economist——

The CHAIRMAN. Some of us up here are just small town lawyers.

Senator BOSCHWITZ. You were doing fine, but I do not believe economists are humble.

Mr. MOORE. But it seems to me that the public, if they understand what is going on, would prefer to have a system—we are paying farmers now to produce commodities that effectively the world does not need, and we are storing them. There have even been proposals to burn them. And the public, if they understood that, would prefer to say, all right, we have farmers that are in trouble. They have some real financial problem—let us give them some aid for a few years, not forever; let us give them income support.

They can then use those funds to retrain themselves if they want to leave farming or to upgrade their farm and improve their productivity and compete, or to do whatever they think is the best thing to do. But we will give it to them for a period of time as an adjustment payment because they are not responsible for the mess we are in.

I think we are responsible here in Washington for the mess they are in so let us give them some aid.

Senator CONRAD. Let me just intercede on that point because I think you are exactly right. I mean unfortunately there are a lot of

people out there who think that they are the failures, and frankly, the failures come right out of here. I mean macro-economic policy, macroeconomics that have come, many of the elements, right out of here that have been a disaster, deficits out of control, too much pressure on interest rates, value of the dollar that is out of whack with the realistic value in the world marketplace.

Those are things that are outside the control of farmers that are devastating their ability to compete. But I am interested in knowing how is it, how is it that any of these plans are going to deal with the larger problem. The larger problem we have is an incredible imbalance between supply and demand in the world which has led to a collapsed price. And so much of what I hear is based on what we are going to do here in this country. What are we going to do about the worldwide problem because that is the problem we have. It is a worldwide problem so how are we going to get a worldwide solution. Do any of these proposals deal with a multilateral solution?

Mr. MOORE. That is what we are trying to do within the administration. As I mentioned earlier, in the new round of GATT negotiations, and in the Summit meetings we are trying to address this, get all the major agricultural producers in the world to sit down and say, look, we are all following self-defeating policies that are leading to these worldwide super huge surpluses that are depressing the world price. This is simply madness, and we must stop this.

Senator CONRAD. I could not agree more. I wish you would communicate that to Secretary Lyng because I have asked him on two occasions why we did not go to the last meeting of the major producers with a proposal and an agenda item along the—precisely along the lines of which you speak. And he gave me great resistance in both meetings about discussing much of anything. Right away he thinks you are talking about market sharing as soon as you talk to the other major producers.

With that, I will deed back any additional time that I might have, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Conrad. Senator Boschwitz.

Senator BOSCHWITZ. Mr. Chairman, I would like to ask a question or two. I know that there is a restraint on time with respect to the witnesses, but if there would be no objection from the chairman, after I ask Mr. Boutwell a question, and perhaps Mr. Moore a short question, I would like to cede the balance of my time, a minute and a half or so to Mr. Moore and Mr. Brunthaver to conclude their statements, if they could summarize the conclusion. I understand that their entire statement will be made part of the record.

The CHAIRMAN. Of course. My only concern was that there were a number of Senators with questions. Unfortunately time was a problem. I knew we had that 4 o'clock vote. I knew it would be difficult for Senators to return to the hearing.

Senator BOSCHWITZ. I would say to my friend, Mr. Boutwell, that if I thought the marketing loan would cost $3 or $4 billion the next 2 to 3 years on feed grains and wheat, I might be for it. But my problem with the marketing loan is that when targets are as they are, farmers have a great incentive to produce. If you had a marketing loan, you would only feed that incentive, and I would be afraid that you would simply have larger and larger surpluses.

It is one thing in rice and cotton, where you have had some world factors come into play recently, and also some domestic factors. Also rice and cotton producers took an initial hit in their target price in exchange for the marketing loan. I was quite instrumental on our side of the aisle together with the Senator from Mississippi in getting the marketing loan adopted for those two commodities. However, I fear that there would be an outpouring of production from other crops. I mean rice target prices were $11.90, as I recall, while the world price was $4.50. That is one thing on a smaller crop. There is no restraint implicit, no production restraint implicit in the marketing loan. As a matter of fact, quite the opposite. How would you respond to that?

Mr. BOUTWELL. Senator, I would respond in this way, and that is that there is——

Senator BOSCHWITZ. And the $3 to $4 billion over 2 to 3 years?

Mr. BOUTWELL. I will get back to that in a minute. But with regard to the production response to the marketing loan, there is nothing in the market loan that would bring about any more production response than the existing program for those commodities.

Very simply because under the marketing loan, it changes the mix of Government expenditures, but does not change the total income from one program to the next. Therefore, it should not have a different production response.

With regard to the cost of the program, I indicated that this was a net additional cost. For example, if you go to the marketing loan program, you really do not need an EEP program which is the Export Enhancement Program. And so there are net savings in those accounts. There are some savings associated with some storage costs and some reduction in net loan activity. The cost estimate I have provided would be the cost of the marketing loan less any resulting savings in other areas.

I might add that with regard to the marketing loan program also, if you allow the price to come down below the loan rate, there will actually be a greater need to participate in those programs and it should result in a more effective acreage adjustment program than we have now.

Senator BOSCHWITZ. You talked, Mr. Moore, about balkanizing the world market. That these were self-defeating policies. If I felt through the GATT round that we could have any sense of some form, not immediacy, but some form of short to medium term relief, I would agree. But I am afraid that those national policies are so firmly rooted that we are not going to see much change in those policies in the near term. Do you have some feeling that we will see changes in policies?

Mr. MOORE. Yes, Senator, I do. As I say, I have been over to a number of OECD meetings recently which have been at least partly devoted to agriculture. And in the last year, I have seen a real sea change in the views of nations at the OECD on the importance of addressing this agricultural policy and the importance of, in fact, moving to something like the decoupling, to separating income support from the production decision.

So I think there is a chance. I cannot sit here and guarantee that we are going to succeed. And maybe they are just giving lip service, but they were not even giving lip service a year ago. So I think we

are seeing some progress being made. These countries are recognizing first the dollar cost. Then the cost to their economy. There are some studies that show large costs to the local economies, and we are going to be talking about these in Paris next week.

There are some studies that show that farm policies, while they increase the number of farmers, they are actually probably increasing unemployment, and one of the reasons perhaps that European unemployment has remained so high is very bad farm policies which have attracted resources to the farm sector which are being inefficiently used.

So this is getting home to the people over there.

Senator BOSCHWITZ. Well, I was with the British folks last night. I do not have a sense that policy changes are moving very rapidly. I would yield the balance of my time equally divided between Mr. Brunthaver and Mr. Moore. Is that about a minute and a half apiece would you say, to conclude your earlier statement.

Mr. BRUNTHAVER. Well, the only other point I would make is that this coupled payments result in distortion of the market signal. The best example, recent example, is in the case of oats. Not only are oats prevented from being planted on the permitted acreage of any program crop without the loss of a payment, but farmers were also prevented from planting oats on any of their other acreage in excess of their oat base acreage. If the farm's oat base was zero, then the producer could plant no oats at all without losing all program benefits even though the price of oats in the United States is high enough to encourage and, in fact, imports from oats from Finland and Sweden are taking place.

The market signal could not operate because of the arbitrary Government rules. The modified cross-compliant rule has now been lifted after the Senate threatened to change the law, but the rules still prevent producers from planting oats on permitted acreage without program or without payment loss.

In other words, the law forces producers to plant corn, even though the corn carryout will exceed 5 billion bushels this fall, and we are going to have trouble finding places to store it. It forces producers to plant wheat even though it may not be their best crop and that the wheat supply this June will exceed 4.1 billion bushels, nearly double the 1984 supply, and yet prevent producers from planting oats that may have to be imported.

Senator BOSCHWITZ. Mr. Moore, did you want to conclude?

Mr. MOORE. Let me just talk about the immediate reform that the administration has proposed. As a first step toward the long-term reform that I described earlier, the Reagan administration seeks a major revision in the 1985 act in order to reduce the budget exposure, provide fairness and restore a sense of proportion to agricultural policy and attempt to set loan rates at or below market clearing levels, and to move more meaningfully in the direction of decoupling production from payments.

Specifically, we have proposed as a first step that we extend the 50-92 provision to a 0-92 provision, administratively and legislatively tighten the definition of a person for the purposes of payment limitation; limit the total payment to $50,000 per person; reduce target prices for 1987 by 10 percent a year through 1990

and provide more flexibility in establishing loan rates for program crops.

These policies if carried out would go very far toward decoupling income support from, in fact, the production decision, would focus payments on those of family size farms that most need it, and would be a significant step towards long-term reform.

Senator BOSCHWITZ. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman. Mr. Moore, looks like we both agree that there is a flaw in the Federal farm subsidy payments because they are linked directly to farm production. We both agree on that. It sounds like you also feel, as I do, that there is a sick patient out there. Agriculture is sick and something has to be done about it. I would submit to you, however, that the kind of medicine that you want to give to the patient is not going to make the patient better, but it is going to hasten his demise.

And that is sort of like giving him a large dose of strong medicine to put him out of his misery, and get hence out of agriculture in a hurry. As I understand, what you have said the scheduled reductions in target prices are far too small, 2, 3, and 5 percent respectively in the next 3 years.

I assume that you are supporting the administration's position of reducing it by 10 percent per year over the next 3 years. Can you tell us, Mr. Moore, how much that would reduce net farm income over the next 3 years by reducing the target prices 10 percent a year over the next 3 years? How much would that further reduce net farm income?

Mr. MOORE. Senator, I do not have that number at my fingertips, but I could presumably get it for you.

Senator HARKIN. Do you care? Do you care how much——

Mr. MOORE. I do care about farmers.

Senator HARKIN. No, no. I asked do you care if it reduces net farm income?

Mr. MOORE. I think we have to move toward a more efficient farming system, a better farming system. We have a lot of sick farmers out there, and that may mean that we have to do some things that are painful to some farmers. And that will mean some farmers——

Senator HARKIN. Death may be the most painful of all; right? You are talking about getting rid of a lot of farmers. I am talking beyond that even. See what you are talking about is drastically reducing the net income of farmers, drastically reducing it.

Mr. MOORE. Senator, we want to concentrate our payments on the middle-class farmers and small middle-class farmers that are hurting. It is not desirable to have payments of $12 million going to one single farmer, and I think there is no justification for that, and we should eliminate that kind of thing.

Senator HARKIN. Let us get into that, then, shall we, Mr. Moore? Would you support a limitation on the total amount of loans that any farmer could get through CCC?

Mr. MOORE. Yes.

Senator HARKIN. I offered an amendment on the floor last fall to limit it to $500,000, and I did not see the administration coming to

my aid and comfort; $500,000 total loans. See, the problem you have is that a lot of farmers get these loans, for example, these big cotton farmers out West, then they just forfeit the loan and walk away with $12 million. So you can talk all you want to about limiting direct payments to farmers to $50,000, but if you are not willing to limit to a certain amount whether it is $250,000 or $300,000 or $400,000, the total amount of loans that any farmer can get, then you might as well just whistle in the wind.

Mr. MOORE. What would be best, Senator, if we could reduce the loan rate to the market price or somewhat below, and then there would be no incentive to walk away from the loans.

Senator HARKIN. You have already done that with generic PIK certificates.

Mr. MOORE. No.

Senator HARKIN. You have already lowered the loan rate below market prices with generic PIK certificates. The cash price of corn in my State is now down to a $1 per bushel. Tell me it has not fallen below the loan rate. Sure it has with generic PIK. Surely you must understand how generic PIK certificates work.

But again, I want to come back to what you would propose. Would you be in favor of limiting the total amount of loan that any farmer could get under CCC? If we had the loan rate down to—I am just talking about the way it is now.

Mr. MOORE. As long as it is the way it is now, yes.

Senator HARKIN. Yes?

Mr. MOORE. The way it is now.

Senator HARKIN. You would limit the loans to farmers, total amount of loans? Well, then I am with you. If that is your position, fine. I am for that, too. But now you are also in favor of lowering the target price 10 percent a year over the next 3 years.

Mr. MOORE. Yes.

Senator HARKIN. I just made a rough calculation. The corn farmer in the Midwest, the $3.03 target price, if you assume that his average cost of production is around $2.43 a bushel. That means he is making about 60 cents a bushel profit right now if you call a Government payment a profit. So you cut it 30 cents over the next 3 years, you are cutting his net income by 50 percent. Fifty percent! Do you realize, Mr. Moore, what would happen in the Midwest if we follow through with a 10 percent reduction in each of the next 3 years? Do you think land prices are low now? Hang on. Do you think the Farm Credit System is in a crisis now? Hang on. They are going to come in. They are going to want probably $6 billion to bail them out.

You cut that net income of farmers out there by what you are talking about, or even by the 2 and 3 and 5 percent that is in the bill right now, that equity base to farmers is going to be reduced even more. Then what you are going to have is a crisis in this country the likes of which we have not seen.

That equity base is going to be reduced even further out there. Banks are going to go bankrupt even more than they have because you are eroding that net income of farmers out there.

I tell you I just think if we follow your advice of reducing it 10 percent a year, we will have a national economic calamity. It is

nothing more or less than a return to the 1920's, a return to the 1920's. That is what you want.

Mr. MOORE. Senator, the reason we are in the problem we are in at the moment is we had very high target prices and loan rates, and land values got the bid up, especially in the Middle West. We have to get our system under control. It is not painless to do that. There is no way to do that painlessly. We are trying to make it as painless as possible by providing assistance to the middle-class family farmers, but without trying to cover all the big corporate farmers.

But there is no way to do this without having prices come down. Land prices will come down. But this is inevitable if we are going to get our farm system under control and get the world situation under control. We have got a real major problem in the world, and we have to do something about it. We cannot continue just to subsidize indefinitely.

Senator HARKIN. Well, see, I agree with you on that point. I just think that your medicine is basically death to the farmers out there. Hundreds of thousands of family-sized farmers out there, and quite frankly I think many of them would prefer a little bit of pain to that instant death that you are talking about, putting them out of business. I hate to put it in such graphic terms, but that is really what I think it means if you are going to cut those target prices. Now, where I do agree with you is that I think this whole target price scheme and payment to farmers on what they produce is a cockamamie scheme. I think it is crazy because what you are doing, as people have pointed out, you are paying them to produce in a world that does not need anymore production.

Mr. MOORE. Exactly. So we should give them income support and divorce that from the production.

Senator HARKIN. No, no.

Mr. MOORE. Actually eventually we should eliminate the target prices entirely.

Senator HARKIN. I agree with you on that.

Mr. MOORE. And give people just income support.

Senator HARKIN. No, I do not want to give welfare to farmers. I want them to get their money from the marketplace. I want them to get it from the market. I want them to match supply with demand, you see, and an individual farmer cannot do that, but all of the farmers acting together can. They can act like a General Motors. They can keep their production in line with demand if only the Government would enable them to do so.

I will give you a chance to respond. I do not want to cut you off.

Mr. MOORE. I think we are in agreement that we want to move toward getting supply and demand in balance, and the way to do that is to get rid of the target prices, get rid of tying the support to how much farmers produce for a transitionary period. I think it is desirable to give farmers some income support, to help them make the adjustment. At the end of that, they should be free to produce what they want to produce, whatever set of crops meets the market need. But we should not go down the line of trying to control their production because once you go down the road of control of production, you give up the world market. You have forced higher prices in the United States, and you are back to controls.

And what we have got to do is get away from these controls. That is what has been the problem.

Senator HARKIN. Do you mind if I just ask you a hypothetical question, Mr. Moore? If we had one farmer in the United States, if we had one farmer who farmed all the land, all the corn, all the wheat and all the rice and cotton, would that one farmer produce as much as what we are producing today? Would he continue to produce as much as we are producing today?

Mr. MOORE. If that farmer got the target price that we have now, I think he would. [Laughter.]

Senator HARKIN. Oh, no. No. I mean in the absence of target prices, in the absence of target prices or any kind of Government support, would that farmer continue to produce as much as he is doing now.

Mr. MOORE. Senator, there is a basic proposition in economics. If you have a monopoly, the monopoly restricts output and raises the price. I have taught students for decades that, in fact, monopolies are bad things. I cannot say that a monopoly in U.S. agriculture would be good for the world or for the U.S. consumer. So it would not be a desirable situation.

Senator HARKIN. But, see, I think the policies you are driving us toward is exactly that: a few farmers controlling much of the production, and quite frankly, that is also a monopolistic practice. But basically what we can do with farmers is the same thing as any other company would do, that Senator Conrad talked about, and that is just getting production in line with demand. You just do not keep producing and producing for a market that is not there.

Mr. Chairman, I just had a couple of other questions I want to ask of Mr. Boutwell. You had a cost estimate of some money here for the marketing loan. Now let me read you some figures here of the study done by FAPRI, the Food and Agriculture Policy Research Institute at the University of Missouri and at Iowa State. They have here the estimated Government costs by policy option.

Staying with the present farm bill, the average over the next 3 years is $17.1 billion. Marketing loan, $18.1 billion. Administration policy, reduce it 10 percent a year, $12 billion. And under the Harkin Mandatory Program, $8.2 billion, average per year Government cost. Do you agree that the marketing loan concept would cost more than any of the other options that we are looking at right now, cost more than the administration or the present farm bill or what I propose?

Mr. BOUTWELL. Senator Harkin, you have to look at over what timeframe that analysis covers?

Senator HARKIN. I am just talking about those 3 years.

Mr. BOUTWELL. Over those 3 years.

Senator HARKIN. 1988 to 1991.

Mr. BOUTWELL. Senator Harkin, the thing that we have said all along is that the marketing loan program is a front loaded cost program. In other words, you spend your money on the marketing loan program in the early years of any program, and what you are doing here is buying down that price in order to move the inventory.

The savings on a marketing loan program come in those years beyond that third and fourth year that is the reason any analysis

of the marketing loan program would typically come out in the early years more expensive. But if you look over a longer period of time, it is always the most cost efficient of the programs that you look at.

Senator HARKIN. Again, I question whether or not that would really happen. Now, let us take another look here. This is from your own statement here today. Under marketing loan commodities, the price of rice has gone down in the last 3 years 41 percent. And you say because of that we have gotten all these rice exports back.

Just flip to the next page, and look at the nonmarketing loan commodities. Wheat in the last 3 years has gone down 22 percent. Feed grains has gone down 32 percent, and yet they have not had the kind of export boom that you had in rice where you had a 36 percent increase in export, and in cotton you had a 340 percent increase in exports.

I guess my question would be how much more percent decrease do you need in wheat and feed grains to try to get those export markets back?

Mr. BOUTWELL. Senator, there is a subtlety in the marketing loan program that is very hard to get across in terms of how the program operates philosophically from the standpoint of a competitor. Under the marketing loan program where there is no floor, the market price tends to go to its equilibrium.

Under a program where you have a floor, regardless of how low you may take it, it is still a target by which your competitors can price just under it, and they have a fixed known quantity, and they know exactly how much it will cost them to take your market from you. And so what we have found, in the case of wheat and feed grains, is even though we have lowered the loan rates substantially, it is still another market which our competitors say, well, for "x" billions of dollars, we can still gain that market and they have done that.

They were not able to do that in the marketing loan because the market price goes down with their offer. So they do not have any incentive to take the price down.

Senator HARKIN. But the price of feed grains is way below the loan. The price of corn is $1.50 a bushel and that is way below. The loan rate is $1.82. That is way below the loan rate now.

Mr. BOUTWELL. That is correct, Senator, but that is because of the certificate program, and our competitors know exactly how many certificates are available. They know exactly how far you could buy the price down to.

We would have been much better off, in our assessment, had you not had those floors in there.

Senator HARKIN. I want to follow up on that because I think you are leading down to 80 cent corn. Just one last question before we go. I just want to ask you, Mr. Boutwell, would you be in favor of having farmers, wheat and feed grain farmers, vote in a referendum on your marketing loan proposal? Would you mind it if it went out for a vote?

Mr. BOUTWELL. I would not mind it.

Senator HARKIN. You would be in favor of a referendum? You would not mind it? Mr. Brunthaver, on your decoupling, would you

be in favor of farmers voting in a referendum on decoupling whether or not they would like to have that as a policy option?

Mr. BRUNTHAVER. I think that would be wise, yes.

Senator HARKIN. You would like to have them vote on it?

Mr. BRUNTHAVER. Yes.

Senator HARKIN. And you, Mr. Moore, would you like to have the farmers vote on the administration's policy of reducing 10 percent a year?

Mr. MOORE. I would like to have the taxpayers who pay the bill also vote.

Senator HARKIN. Actually I would not mind that myself, to tell you the truth.

The CHAIRMAN. Senator, it might make all our lives easier if that happened. Senator Wilson.

Senator WILSON. Thank you very much, Mr. Chairman. In the interest of time I will try to capsulize a statement which I would like to enter into the record in its entirety.[8]

The CHAIRMAN. Incidentally, the record will stay open for questions and statements of Senators.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Let me say that I came in just in time to hear Senator Conrad finishing his line of questioning which I found encouraging. It seems to me at the very least that someone is asking the right questions. The implication in his line of questioning is that unless we can achieve something in a multilateral way then the fact that this country, Europe, Japan, and indeed the world now has more people producing more surpluses will never ever be adequately addressed or honestly addressed.

I have to say that I was refreshed and impressed by the comments of Mr. Moore. Anyway you go about this it is going to be painful unless we continue to temporize and mislead the American farmer that somehow we are going to be able to provide him a guaranteed farm income. No one in this room needs the anecdote, but I am advised in some reliable reading that we now have sufficient surplus corn to fill a corn crib three-quarters of a mile square and about as high as the Washington Monument. That we cannot find places to store it so we have to rent barges on the Mississippi River.

I think the point is that the points of agreement are very interesting. Mr. Harkin agrees with Mr. Moore that he hopes that the day will soon come when farmers are producing for the market. But the existing program is one that does not encourage them to produce for the market. It just encourages them to produce.

I think we could probably all stipulate to that and to what the unhappy consequences have been, and we would all like to see farmers producing for the marketplace with a decent farm income. That is the idea. And yet who are we kidding. I mean we are so far from that, the reality is so far removed. We have so isolated the American farmer from the marketplace that we have encouraged

---

[8] See p. 33 for the prepared statement of Senator Wilson.

him to live in a never-never land, and the result has been what we all know it has been. It has been the fact that this 1985 farm bill is going to exceed anything like the estimates with which it was sold at the time that it passed out of this committee.

Is it going to bring about guaranteed farm income of a reasonable kind? What has happened to the price of corn in that period? Well, we know what the answer to that is. It seems to me we cannot have it all ways. If we are going to produce for the marketplace, then I think that at least if I take his line of questioning to mean what I hope it does, Mr. Conrad has pointed us in the right direction.

And that is that there needs to be some kind of a global effort to address this question in a way that we are so far from. In fact, it is not apparent to me, Mr. Moore, how you see this sea change. I would like to hear more about it. Last year, Senator Boschwitz held a series of hearings on agricultural trade, and he and other Senators came to a meeting that I had organized with Sir Roy Denmon which was interesting, if frustrating. It was very frustrating. If I understood you correctly, you are suggesting that the time may be coming when we will have some success with the European Economic Community in so adjusting the CAP, their Common Agricultural Policy, that they are willing to decouple farm income support from the kind of protectionism that has caused such outrage from virtually everybody that has taken the floor to talk about it? Do you really think that is going to happen, and if so, tell me why? I mean I would welcome the encouragement.

Mr. MOORE. Well, perhaps, Senator, I am just an eternal optimist, but as I said——

Senator WILSON. We all have to be in this primitive art form, but sometimes you exceed reasonable limits.

Mr. MOORE. Last year when I went over to the OECD, and I suggested to them that we look at agriculture, there was a lot of shuffling of feet, people shuffling papers around, and saying, well, that is a very sensitive topic. Well, we do not know whether we can take it up, but I had some surprising allies at the time.

Then this was raised in the OECD ministerial meeting, and subsequently in the summit, and in fact, the President, as I understand it, was about to bring up agriculture when Margaret Thatcher brought it up herself. She beat him to it. So it was on the minds of people in the Common Market. They understand that this is a problem, and they are beginning to understand why it is a problem. That, in fact, if you tie income support to production, you are going to get these huge surpluses, that the result is to drive down world prices, to increase the cost to the governments or the taxpayers of the countries. Moreover, it increases the cost to the economy, and as I indicated earlier, there have been studies that are indicating that this is one of the reasons why economic growth is not doing all that well in Europe.

The cost to the Japanese economy of their rice program is tremendous. It is very expensive, and the Japanese are beginning to recognize this. So as people learn, I believe—and I guess this is because I come from an academic background—but I believe that when people learn things, they change their behavior. People are learning the cost of these agricultural policies, and so I think there

is going to be a change. Now it is not going to be easy. These policies are well embedded both here and in Europe and in Japan. It is not at all going to be easy.

But if we all can work together, it will be a lot easier than going separately. I think there is enough gain to be made by the United States going ahead even alone. We should go ahead even if the others do not, but I think there is more gain for all major countries going ahead together. I think this knowledge is getting across to the policymakers. They are going to have to sell it politically in Europe to their people. That will be difficult. As you know, it is difficult selling it here, and it is going to be difficult in Japan to sell it. But it can be done.

So I remain optimistic.

The CHAIRMAN. Will that be a major agenda issue at the economic summit in June in Venice?

Mr. MOORE. I cannot say for my own personal knowledge what will be on the agenda, but I would not be surprised if that was a major agenda item.

Senator WILSON. It needs to be. For the optimism that you have expressed to have any reasonable basis, we have got to be far more aggressive with our trading partners than we have been in fact. Now, I see a great change, a welcome change; I think it is belated. I do not think it is too late, but I must say that the kind of thing that has to happen is not going to happen simply because people focus on the problem. Hell, they are focused on it.

Those in the rotting boroughs of Japan know full well that they enjoy an inordinate amount of clout, and they like it that way. The most encouraging sign I have seen, to be blunt, is the fact that the LDP won a vast majority that did not make them dependent upon the farmers of Japan, but rather picked up a new base in the cities.

I think that unless there is the kind of change that you have described that we are in a very serious situation. Let me ask one final question, and I know the bell has rung.

The CHAIRMAN. I might note my own feeling is that the only way we will get any kind of responsible trade policy with Japan is if we use our own economic leverage and clout to force it.

Senator WILSON. I quite agree, Mr. Chairman.

The CHAIRMAN. We bend over backward trying to believe them. They have lied to us. As a Vermonter, I tend toward understatement, but I feel they have cheated us and they have lied to us for years.

Senator HARKIN. Come on. Say what you mean. [Laughter.]

The CHAIRMAN. If it was not an open hearing, I might use stronger language.

Senator WILSON. You have been clear. You have understated it. The fact of the matter is that we have got to be the ones that apply the pressure, and whatever internal changes may encourage me do not relieve us from doing a much better job than, in fact, we have.

Let me ask you this question because it is all we have time for. You and Senator Harkin agree that it would be a wonderful thing if once again the American farmer were producing realistically for the market, and achieving a decent farm income. The question is how do you get there? He wants to get there by mandatory production controls, and you want to get there by decoupling the support,

and if I gather correctly, having a transition that allows the marketplace itself to operate.

Let me just ask this question. He has stated a firmly held conviction that your way is such strong medicine that it is going to kill several of the patients. Is it not also true that there is a distinct price, a cost in job loss, if you try it his way? What happens if we engage in mandatory production controls? Are we going to be able to do that without losing farm jobs, without losing jobs in related industries? This is a question not just to Mr. Moore. I would invite the academicians, the economists who are the panel to make a response for the record as well.

Mr. MOORE. Senator, you are absolutely right. The production controls would be very expensive to the economy. We estimate that the cost would be something in the order to the economy of $64 billion, and it would eliminate approximately 2.2 million jobs in the rest of the economy. This is not cost effective—it is a very high cost way to go. Moreover, Senator Harkin says, and I agree with him, that our long-run objective should be to get to a market system where supply and demand are set by market forces. There is no way to get from a production control system to a free market system.

That is just going the opposite way so it is not only very costly, but it is leading us down the wrong direction. The suggestion I put forward, the administration proposal will—I agree it is not painless—but it will move us to a market solution, and we are proposing, as I say, income supports in the interim to ease this transition.

My way will eventually get us to the market. Senator Harkin's will not.

Senator HARKIN. Do you have any economic study done by any university or any economic studies that would support what you have just said about the economic impact to the economy? That was an ERS study that came out last fall, and I have seen no—I repeat none, zero—support for that estimation from any economic study.

Senator WILSON. Ms. Ball is indicating that she would like to respond. Maybe she knows of some.

Senator HARKIN. I just do not know. I have never seen anything to support that.

Ms. BALL. I have not either, Senator Harkin, and in fact I think if you go with any of our Senators to any of our rural areas and look at the boarded up shop windows, if you go with Senator Harkin to Waterloo, Iowa and look at 10,000 union jobs lost in just one town from farm implement dealers, I think you can say that our present policies are what are costing the jobs, not any proposed ones.

The Tenth District of the Federal Reserve says that one in four nonfarm rural businesses is in serious financial difficulty this year. Three-fourths of the farmers that are going out of business are staying in the local communities without any jobs at very decreased standards of living. So there is an Upton Sinclair quote that is kind of appropriate to this, and I think describes the ERS study fairly well.

It says it is hard to make someone understand what they are paid not to understand. I think that is kind of what happened on

this. They assumed that there would be a 40 percent drop in the value of exports that simply is not validated by the FAPRI study at all.

The CHAIRMAN. With the five bells it indicates we have 5 minutes.

Senator WILSON. Mr. Chairman, I would like to get the response from anyone else who would care to respond to it. And let me just say to Mr. Moore, as I understand, USDA has such studies. But you are on the spot to produce them. I think that is a perfectly legitimate question.

Senator HARKIN. I just want to see these studies.

The CHAIRMAN. I would note that each member of the panel has been very good. We started 20 minutes late. That was because of a conflict I ran into, and I appreciate their patience. They have all worked very hard to present just what we asked them to: differing views. We did not want a monolithic panel and we did not get a monolithic panel. Each one will be able to add more when they follow up. I would just note in closing, Mr. Moore, that CBO said that your program would lower farm income by more than 20 percent.

If that is so, that signs a death warrant for a whole generation of American farmers. Aside from the purely human factor, this committee is already holding hearings on not only the farm debt situation, but the Farm Credit System, a system that is tottering on the brink of bankruptcy. Many would say that in practical terms, a large part of it is bankrupt.

I would hope that when these plans to lower target prices are being made, that consideration is given to the ripple effect. If you want to look at it purely in dollars and cents, what happens if the Farm Credit System goes belly-up? And as Americans, as the only major military power in the world able to feed itself and still create surpluses, let us ask ourselves what it does to our national security if we lose a whole generation of farmers.

And what responsibilities do we have as a people, to those we have encouraged to farm? What do we do to make this transition? I do not suggest that there are any easy answers to that. I appreciate your candor, and the candor of every single member of this panel. I would suggest to each one that if you have further thoughts, send them on. I will read them. I suspect that every Senator on this panel, Republican or Democrat, will. Thank you. We stand adjorned.

[Whereupon, at 4:10 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

Prepared Statement of Hon. Patrick J. Leahy, a U.S. Senator From Vermont

The highest priority of this committee is the health and vibrancy of our country's agricultural economy. All members of this committee are committed to a farm policy that works. No one is more committed to that goal than I am.

The problem with American agriculture is not the American farmer. Our farmers remain hard working and productive. The problem is the absence of an administration trade policy that works, the lack of a credit system that is responsive to today's needs, and a serious shortfall in farm income.

Today's hearing is a continuation of hearings the Committee began in February. Many of us participated in the Committee's field hearings in the midwest. We felt the frustration of rural America. Many good people, many good farmers cannot survive in today's market. They are being forced to abandon their dreams and the dreams they had for their children. The stress, the anguish was clearly visible on their faces. While some of our witnesses urged the committee to stay the course and give the 1985 bill a chance to work, many urged us to make fundamental changes.

Clearly, not all of our farmers and small towns have the same story to tell. Some farms in the midwest are doing well. At the end of the month this Committee will hold its next field hearing in South Georgia. There we will hear from cotton, peanut and tobacco farmers and livestock producers. I expect that many of them will urge us to leave the 1985 farm bill alone.

Today's hearing continues our efforts to learn how the 1985 farm bill is working and to evaluate suggested changes to that bill. We have with us today a panel of experts who will outline and argue six different approaches to farm legislation. The primary focus of these approaches is wheat and feed grains. But they will also affect other crops and other elements of the agricultural economy, and rural America.

I have indicated that this committee will address itself to those aspects of the farm bill that are not working. I am interested in solutions that will put American agriculture on a firm footing for the next century and that will work for all segments of the agricultural economy. Each alternative must be looked at in terms of its effect on exports, costs to the treasury and the consumer, and its impact on farm and other incomes.

Today's hearing will be the first of many on these issues. While the hearing process continues, the committee will continue to move aggressively on other issues critical to the health of the agricultural economy. We are committed to having a trade bill ready for consideration by the full Senate by the end of April. Senator Boren is moving ahead on legislation to keep the Farm Credit System healthy. Our oversight of the Farmers' Home Administration will continue. We will do what we can to encourage continued innovation to bring production prices down and increase markets. And we will work seriously on rural development, to provide opportunities for off-farm income where and when it is needed.

But you can't have a healthy rural economy without a healthy agricultural economy. That is why today's discussion is so vitally important.

Thank you all for coming today and we look forward to your testimony.

Statement of Hon. Pete Wilson, a U.S. Senator From California

Mr. Chairman and fellow committee members, I am pleased that this Committee will be focusing its attention on our Nation's farm policy. Over the past few weeks, we have discussed agricultural trade, food aid, farm credit and a host of other timely issues, but none, in my opinion, is more important than the discussion that we will begin this afternoon. Without an effective, market-oriented agricultural policy, enacting farm credit or trade legislation will not have its desired effect. I

believe our present farm policy, which sets government price supports above market realities, is the root of our evils.

I do not mean to suggest that the farm bill passed last Congress is void of positive developments in agricultural policy. However, for many of the provisions, which I have previously characterized before the Senate as plusses, there are unfortunately offsetting minuses of significant dimensions and serious consequences.

For example, the bill made a major, positive structural change in federal policy by allowing commodity loan levels to reflect marketplace prices, instead of codified estimates. Another favorable provision was the use of a "marketing loan" which has allowed growers to redeem their crops from the Commodity Credit Corporation at world price levels, instead of higher CCC loan levels. This has enabled American farm products to be sold to foreign buyers rather than forfeited to the federal government.

Unfortunately, the downward trend of loan levels was offset by freezing target prices at their historically high levels. Technically, this was a 2-year freeze, with a token 2-percent reduction in 1988 and a 3-percent reduction in 1989. These minor reductions in 1988 and 1989 do little to thaw the freeze.

While I sympathize with the desire of my colleagues to maintain farm income—especially during these difficult economic times—the combination of high target prices and lower loan rates has translated into larger federal deficiency payments to farmers.

Many of the growers in this country are confronting severe financial problems—despite $50,000 a year deficiency payments. These federal farm subsidies take a toll on all agricultural operations in the United States regardless of whether the operations qualify for Federal subsidy programs.

An agricultural constituent of mine provides a timely and troubling example. In 1985, the J.G. Boswell Company, one of the world's largest cotton-growing concerns, drastically reduced its work force from 1,300 to 700, a reduction of 600 employees. In a letter from the chairman of this family-run operation to his employees announcing these severe cutbacks, Mr. J.G. Boswell cited the inability of Congress to reduce farm subsidies as a major factor behind the need to restructure his operation.

Mr. Chairman, on a related matter, the 1985 farm bill's commodity titles required farmers to idle significant amounts of fertile, potentially productive lands through acreage reduction programs. Compliance with these so-called ARP's, which have ranged from a low of 20 percent of our Nation's corn acreage to a high of 35 percent of our rice acreage, is a regettable outgrowth of the high costs of the support programs reauthorized by the 1985 farm bill.

Unfortunately, not only have these ARP's increased the per unit cost of American farm products and reduced our economies of scale, they have served as an incentive for farmers abroad to increase their plantings and thereby provide additional competition for U.S. agricultural exports. Partly as a result of this policy, U.S. agricultural exports have plummetted from a high of $44 billion in 1981 to barely $26 billion in 1986.

Yet, some members of this committee are quick to embrace a farm policy that advocates mandatory production controls. I believe that this type of farm policy would hurt, not help, American agriculture. According to the U.S. Department of Agriculture, mandatory production controls of just 55 percent would result in a substantial loss of farm income—close to $70 billion. Further, there would be undoubtedly a corresponding loss of American jobs. The latest figures show that over 500,000 jobs would be eliminated in the farm production sector and another 1.5 million American jobs in other sectors if the government were to institute mandatory production controls.

During the past few months, there has also been considerable debate surrounding the concept of payment limitations on Federal farm benefits. I find it disturbing that several individuals have suggested that lowering the payment limitations will result in significant savings to the Treasury.

In Secretary Lyng's testimony before this committee, he indicated that the cost of the 1985 farm bill for fiscal years 1986–1988 will exceed $70 billion. In light of our growing budget deficits, these costs are unacceptable and must be curbed. However, the suggestion that significant savings could be achieved by lowering the payment limitations for agricultural producers is, in my opinion, unsubstantiated.

Although there may be minimal budget savings achieved through enacting payment limitation legislation, such legislation would result in great costs to our country in the long run. Lowering the payment limitation will not only have a crippling effect on our Nation's most efficient farmers, it will also negatively impact the competitiveness of our Nation in the world marketplace. We must face the inadequacy of our present farm policy without using such devices as payment limitation amend-

ments to mask the underlying problems that have placed rural America in the situation it now finds itself.

Over the next 2 years, the American taxpayer will have paid more than $50 billion in subsidies to farmers who produce basic commodities and are eligible for program participation. However, while these subsidies have failed to revitalize farmers who participate in the programs, they have also had the effect of penalizing those agricultural enterprises outside of the federal farm programs.

In my mind, this a lose-lose scenario—harming the most efficient of American agriculture while failing to revive the troubled growers.

Fortunately, in the area of agricultural exports the 1985 farm bill provided a variety of tools, including the Targeted Export Assistance [TEA] Program, to enable the Secretary of Agriculture to reverse the downward export trend and to respond to a variety of unfair trade practices. I will not take too much of the Committee's time on the TEA program. However, I am particularly proud of the TEA program having been its author.

As I have stated before, this progra has been extremely successful. In fact, in a recent USDA inter-departmental memorandum, first quarter horticultural exports under the TEA program were described as "astonishing." Growers of grapefruit, apples and walnuts, to name a few, all posted sizeable increases in exports sales. The almond growers alone were able to increase export sales by 141 percent. This is all largely due to our promotional efforts under the TEA program.

Mr. Chairman, I recite this list of the plusses and minuses contained in the 1985 Farm Bill in order to demonstrate the inconsistent policies and incongruous provsions which the Congress enacted into law a little over one year ago. These inexplicable contradictions have miserably and tragically failed the American farmer. There must be a change in the course of our agricultural policy. While we may differ on which direction to take, I am hopeful than when we complete our journey, we will find a workable cost-effective solution. Thank you.

STATEMENT OF HEATHER BALL, TEXAS DEPARTMENT OF AGRICULTURE

I am honored to be participating in this historic hearing process. Mr. Chairman, I am heartened—and I think the farmers and ranchers in America are heartened—by your commitment to examine the wreck that is continuing in our rural communities. The 1985 Farm Bill is not doing the job, and we will lose our family farm system unless it is amended.

The 1987 Save the Family Farm Act, introduced on February 5 by Senator Tom Harkin and Representative Richard Gephardt, is a last-ditch effort to save the competitive structure of agriculture. With the farm crisis deepening in America's Food Belt and the farm debt totaling more than the foreign debts of Brazil and Mexico combined; with consumers paying more and more for food and farmers receiving less and less of that food dollar; with the Reagan Administration proposing "decoupling" as an agricultural solution, pulling the farm-support rug out from under major commodities and paying farmers to get out of business; the Harkin-Gephardt bill is the only proposal on the table that could set the farm economy once again on a stable foundation, based on the marketplace and not on artificial government supports. And, in addressing the structural problems of the farm economy, it provides family farmers and consumers with a means to shape the direction of this country's economy without costing billions of tax dollars.

What the Harkin-Gephardt bill does is eliminate federal farm subsidies while allowing family farmers to work their way out of the debt that threatens their livelihoods. The bill makes this possible by providing farmers with some measure of control in a marketplace dominated by agribusiness conglomerates. Despite all the talk about "free markets," the truth of the matter is that the domestic agricultural market is a controlled system, designed to benefit vertically integrated agribusiness corporations, shippers, and processors to the detriment of the family farmer. Since 1981, 500,000 family farmers have gone out of business as a result of this system, and another 280,000 are on the brink of broke, their economic stability being subsumed to the profit margins of agribusiness. In order for international distributors of wheat to make a profit, for instance, the U.S. family farmer received $2.45 per bushel in January of this year, compared to $4.21 per bushel in January 1981 and to $4.72 it costs the farmer to produce a bushel this year.

Under the Reagan Administration, the lowering of inflation rates enjoyed by the rest of us has been borne in part on the backs of family farmers. Some have been crushed by the weight, and many can't hold out much longer. The farm share of the food dollar, for instance, has fallen dramatically in the last six years. While food

expenditures have risen 30% since 1981, the farmers' share of those expenditures has fallen $18.8 billion, with inflation removed. Food processors and distributors have accounted for almost the entire increase in food costs.

With the Harkin-Gephardt proposal, farmers get the chance to regain control of their destinies. They will vote every four years on setting production controls for specific commodities, gearing production to demand, providing returns equal to the cost of production. The USDA would determine marketing demands based on domestic and export demand, food aid requirements, carry-over and reserve requirements. This would feed into a progressive acreage set-aside formula to distribute set-aside acreage in increasing percentages based upon increasing farm size, with no set-aside to exceed 35% per crop. The bill includes a disaster reserve fund, a mechanism for multilateral trade agreements, and a system for farm debt restructuring.

The bill's provisions provide immediate relief for farmers through the debt restructuring and by providing them with an unsubsidized market value for their production at a level that allows them to continue operating.

According to a study by Texas A&M University, there is better than an even chance that farmers in all regions of Texas, for instance, would receive at least a 5% return on equity under the bill. That contrasts to the minus 13.1% rate of return farmers experienced nationwide in 1985—compared to returns for Kellogg's in 1986 of 44%. The farm share of the food dollar would return to 1981 levels—about 30%.

The bill's debt restructuring would allow farmers to work their way out of trouble and stay in operation, rather than abandoning their farms to investors and their debt to banks and taxpayers. Through price restructuring alone, the bill would immediately salvage 4,000 family farms about to go under. Another 120,000 would be able to work their way back to financial health within ten years under the bill's debt restructuring plan. Another 300,000 family farmers now living hand to mouth will be able to make decent livings again. The Harkin-Gephardt bill helps those farmers who are most in need.

Because the bill represents a dramatic departure from current deficit-building policy, it has inspired a slew of misconceptions and questions concerning its function and impact. What follows is an attempt to address the chief concerns emerging in the current debate.

First: How is all this paid for?

In the marketplace. In its first year, the bill will increase the cost of overall national food expenditures by one or two percentage points. The weekly market basket for a family of four could increase by four of five percent. The change in corn prices would raise the price of corn flakes one cent. If the processors pass the entire increase in farm value in a $1.41 box of Wheaties, it would raise the price of that box to $1.43. That increase is negligible compared to the 36% increase in the Wheaties supermarket price since 1981. And that price increase came during a period when wheat prices were falling by 42%. The 36% increase has not caused great public outcry because it has been incremental and because food costs, as a percentage of overall personal consumption expenditures, have declined from 25% in 1960 to 20% in 1980 to 15% in 1986. Also, consumers by and large have not been aware that the farm value of their food purchases is small and declining—that, for instance, the wheat value in a $1.04 box of Wheaties in 1981 was 2.4 cents and it fell to 1.6 cents in a $1.41 box of Wheaties in 1986, about ⅛ the cost of the packaging of that box. The Save the Family Farm Act would raise the farm value in that 12 oz. Wheaties box to 3.2 cents. The way the legislation is designed, middle and upper-income consumers will bear the brunt of the market-basket impact.

What consumers stand to lose in pennies per day they stand to gain in real dollars over the years to come. The Harkin-Gephardt proposal will defuse the debt bomb hanging over our heads. Because it replaces farm subsidies with production controls, we will save $18 to $21 billion per year of the subsidies now being doled out by the 1985 Farm Bill, reducing the burden on taxpayers.

The current debt owed by American farmers is a staggering $205 billion, more than the combined debt of Mexico and Brazil. Under current policy, 26% of the farm debt, or over $50 billion, would be unrecoverable. Interest rates for consumers would have to climb as much as 2¼ percent to make up for the loss. The Save the Family Farm Act provides a means for farmers to repay debts currently outstanding.

And what of the near-poor, those consumers for whom a 2-cent rise in the price of a box of Wheaties represents a significant jolt?

Since 1981, while eligibility requirements for government food programs have constricted significantly, food costs have increased 30%, with the price increases going to every food industry sector except the family farm. The Save the Family Farm Act

addresses the impact across the board. It incorporates both controlled price increases—which will undoubtedly be passed through by food processors and distributors—and a call for expanded government food program eligibility and outreach programs. The savings of the bill provide a natural source of revenue in order to return eligibility levels to 1981. This should be coupled with expanded child nutrition, school lunch, and school breakfast programs. The Save the Family Farm Act is not designed to add to the food burden of the near-poor, but to help alleviate it through the use of federal money currently dedicated to serving the interests of super-farm combines, distributors, and processors. Because business management practices will be based on demand, including national and world hunger needs, the bill can be used to establish more efficient mechanisms for making certain those needs are met.

At the same time, the people on the economic margins, those who have been forced out of work or into lower paying jobs by planned economic shrinkage, or those who found themselves stranded by the low tide of Reagan food stamp cuts, can only be helped by a profitable, stable food economy. This does not mean the "trickle-down" of Reaganomics but the "percolate up" of an economy in which capital is decentralized, creating jobs across the landscape from money that, under the current system, is unproductive.

Is the family farmer in this bind because agricultural production is moving toward greater efficiency?

The current system, initiated by the Nixon Administration, saw to it that the family farmer bore the brunt of the international trade imbalance brought on by skyrocketing oil prices and a fluctuating dollar. Farmers were encouraged to plant fence row to fence row and to concentrate on the production of crops for export. This led agricultural economist Phillip Raup to observe that it represented a pattern 'very similar to the type of monocultural dependence formerly associated with colonialism." Government policies encouraged farmers to expand beyond their function as the most efficient agricultural producers.

But doesn't a mandatory system mean a huge enforcement bureaucracy?

Enforcement under this bill is decentralized and delegated to the local ASCS committees. They are responsible for measuring on-farm storage and empowered to make spot inspections at any time. For the same reason Decatur, Texas, has been called the town of 8,000 private investigators, we believe a local enforcement system, backed up by stiff penalties, is the only workable system. For example, say a farmer tries to produce more than allotted by certificates and feeds the surplus to his or her cattle. Neighbors will notice those extra fat cattle going through the local auction ring or in the feedlot. Since the neighbors have a stake in keeping you honest—if you cheat this year, they have to set aside more acreage next year in a program they all democratically voted for—you're going to get caught.

Won't acreage reduction put people out of work?

Reagan trade policies have been dislodging people from gainful employment by the hundreds of thousands. Lost exports to the Third World, including farm exports, accounted for 1.6 million newly unemployed in 1986. A stabilized farm economy—with farmers not drowning in debt and receiving a fair return on their equity—will mean an economy with increased and long-term purchasing power. Because 20% of the gross national product is agriculture-related, a stable farm economy is essential to national economic stability.

The Harkin-Gephardt bill is a solution that will put people back to work over the long haul. While the initial impact of the bill, with its reduced farm production, will precipitate the elimination of some farm-related jobs over the short term, the overall effect of the bill within three or four years will be to put the farm implement business back on its feet. Since 1981, 2,100 farm implement dealers have gone out of business, and 50,000 farm implement manufacturing jobs have have been eliminated. United Auto Workers president Owen Bieber has enthusiastically endorsed this bill. Compared to the disasters wrought by the 1981 and 1985 farm bills, the restoration of the competitive structure of agriculture by the Harkin-Gephardt bill will enhance the competitive abilities of farm-related industry. When set against the 1987 Reagan "decoupling" proposals, any initial job losses related to production controls would be miniscule compared to the full-scale decimation of agricultural life brought on by the payment to farmers to get off the land.

How does a domestic solution affect our weakening international trade position?

The trade imbalance from which this country is reeling is, in part, the result of skewed ideas of productivity and outmoded notions of international sovereignty benefiting U.S.-based multinational operations. The promotion of "fence row to fence row" planting for increased production for export not only has wreaked havoc with the conservation of arable land in this country, but it also flies in the face of USDA studies of farm efficiency. Since the U.S. government has been subsidizing domestic

production in order to keep prices low on the international market, other countries have followed suit, subsidizing their own producers in order to compete with and, in many cases, to undercut U.S. prices. With increased production for export, U.S. farm exports on the world market decreased from $44 billion to $26 billion between 1981 and 1986. Because world prices of many commodities are pegged to U.S. prices, countries such as Argentina and Brazil have been forced to sell their products at very low prices in order to earn foreign exchange to pay off their international debts. These efforts to pay off their debts have been stalled by the low prices and by their forced domestic subsidization of prices. Much of that debt is, of course, owed to U.S. institutions. So the U.S. farm debt ends up chasing its tail.

Is there a course to steer between the rock of free market mythology and the hard place of protectionism?

The Harkin-Gephardt bill offers a third option through mutual trade agreements. It is a concept many in Canada and the European Community are begging for, given the strains on their economies caused by world prices. It provides a rational foundation for American trade policy, centering its operation in negotiations and management. It also reserves the current paradoxical relationship of domestic to international markets, recognizing that the primary American interest lies in the stabilization of domestic prices, from which follow international trade agreements. Not only do such agreements allow the major trading partners to resolve their own debt problems, but they allow developing nations to invest in their own agricultural production. Because of current low world prices, many developing nations have found the purchase of agricultural imports to make the only economic sense. The Harkin-Gephardt bill provides surplus subsidies to developing nations while creating incentives for agricultural production through increased prices. Argentina, Brazil, and other producing debtor countries will be better able to pay off their debts. In addition, the Food and Agricultural Policy Research Institute (FAPRI) projects an $111 billion gain in export revenues over our current policy over a nine-year period.

What are the larger social benefits to be gained from the Save the Family Farm Act?

Because the act is designed to put money in the pockets of family farmers from the sale of agricultural commodities, it preserves the competitive structure of agriculture. This, in turn, safeguards the quality and availability of food for consumers, but it also fans out into the economy in general, fortifying its competitive nature. According to the USDA, American agriculture in 1984 accounted for 21 million jobs and $648 billion when farms, farm labor, equipment, seeds, fertilizer, and the storing, processing, distribution, and retailing of farm products were taken together. When the farmer receives a fair price for production, each farm dollar will multiply five to seven times, beginning in the local economy.

Under the Save the Family Farm Act, farmers vote on participation, tax expenditures are slashed, and farm wealth and power are decentralized, returning in greater proportion to farmers on their land. Farmers will be able to afford conservation methods for the proper stewardship of the land. Knowing they are no longer in danger of eviction, farmers can dedicate their agricultural practices to that which serves best for generations. Rural economies will be preserved, and the national economy will be invigorated.

This is a vision upon which our democracy was founded—individual, small-scale entrepreneurs creating wealth from the production of goods, allowing this wealth to filter through the rest of the economy, observing democratic principles in the control of the economy in order to preserve democratic principles in political life.

Statement of Wayne A. Boutwell, President, National Council of Farmer Cooperatives

Mr. Chairman, my name is Wayne A. Boutwell and I am president of the National Council of Farmer Cooperatives. I am testifying today on behalf of the members of the National Council. The National Council is a nationwide association of cooperative businesses which are owned and controlled by farmers. The membership of the National Council represents about 90 percent of the nearly 5,800 local farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

Three years ago in preparation for the debate on farm legislation to replace the expiring Agriculture and Food Act of 1981, the membership of the National Council sought a legislative proposal which would achieve some very basic objectives.

It must enhance the competitive position of U.S. agricultural products in domestic and foreign markets and change our role as a residual supplier in the marketplace. In doing so it must assure more orderly marketing of U.S. products and relieve the

burden on U.S. farmers of having to make all of the production adjustments to bring world supply and demand into balance.

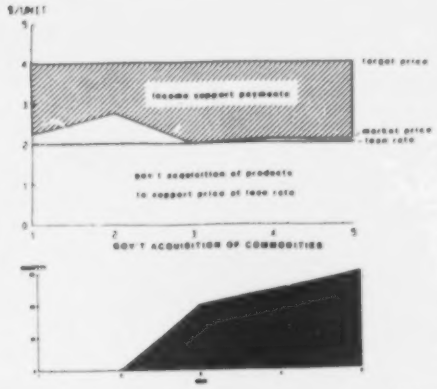
It must maintain farm income and protect the economic well-being of the farmer.

It must ensure a dependable, high quality supply of food and fiber at reasonable prices to the American consumer.

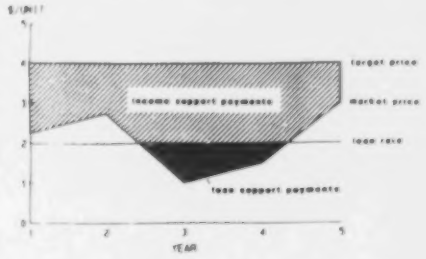
After a thorough review of the options available, the membership of the National Council endorsed the concept of *the marketing loan*. Very simply, the marketing loan proposal modifies the traditional nonrecourse loan program by permitting repayment of the commodity loan at the prevailing market price. However, this simple modification has significant impacts on all segments of the food and fiber system and the economy in general. The following summary highlights the operation and implications of the marketing loan.

COMPARISON OF MARKETING LOAN AND NONRECOURSE LOAN PROGRAMS

TRADITIONAL NONRECOURSE LOAN PROGRAM



MARKETING LOAN PROGRAM



OPERATION

In a given year, farm prices are maintained at or above loan rates through forfeiture of commodity to the government. Producers will market their products commercially only if the market price exceeds the potential loan revenue. Producers receive income support payment and may put entire crop under loan and store for government.

Acreage programs are used to limit supply/demand balance in given year.

The marketing loan does not dictate higher or lower prices. Prices adjust until the market is cleared. There is no government stock takeover except those desired for food security. Producers receive income support payments and will retain loan support equal to difference between loan rate and market price. Producer income is generated by marketing the product.

Acreage programs are used to maintain supply/demand balance in given year. Because of greater market price flexibility, participation rates are higher and acreage programs more effective.

FARMER INCOME

Farmer receives support payment based on difference between target and market price. He will receive market price for what he sells and loan rate for what he forfeits. Farmer's income is total of market receipts, government loan proceeds, income support payments and storage and handling revenues paid by government.

Farmer receives support payment based on difference between target and market price. He receives market price for the sale of his crop and when he repays the loan he may retain loan proceeds equal to difference between the loan rate and the market price if prices are below the loan rate. Income is generated by marketing the crop not storing it. Farmers' total crop receipts from all sources are the same under both options.

TRADITIONAL NONRECOURSE LOAN PROGRAM	MARKETING LOAN PROGRAM
DOMESTIC CONSUMERS	
Consumer pays prevailing market price which cannot be below loan level.	Consumer pays prevailing market price which may decline below the loan level to encourage greater consumption in surplus conditions.
FOREIGN CONSUMERS	
Foreign consumer pays the same price as U.S. consumers for U.S. products but less than U.S. counterpart for non-U.S. products since competitors price just under U.S. support level. If U.S. offers bonuses to reduce price then foreign consumers receive even lower prices then domestic consumers for U.S. products.	Foreign consumer pays same price as U.S. consumers. Since market price will reflect price cutting efforts of competitors.
TAXPAYERS	
Pay for income support payments, loan forfeitures and storage and handling of commodity until such time that crop can be released.	Pay for income support payments and loan support payments. But loan support payments will be equal to consumer savings on food costs if lower prices are passed on to consumers. Storage and handling costs will be sharply reduced as stocks are liquidated.
RELATED INDUSTRIES	
The income and employment potential for input suppliers and processors of farm products is tied to the capacity utilization of agriculture and the size of the consuming market. Reliance on idling acreage and storing commodities to support prices above marketing clearing levels limits the potential of related industries such as fertilizer, chemical, transportation and food processing.	The income and employment potential for input suppliers and processors of farm products is tied to the capacity utilization of agriculture and the size of the consuming market. Reliance on market prices to clear the available volume means greater potential employment and income for all related industries.
RURAL COMMUNITIES	
The rural community is a reflection of the level of farm activity. If movement of commodity is reduced and productive capacity is reduced, the corresponding employment, income and tax base is eroded.	The rural community is a reflection of the level of farm activity. Sustained movement of commodities maintains the related industries and the employment, income and tax base on a continuing basis through surplus or tight market conditions.
FOREIGN COMPETITORS	
Foreign competitors have a price guaranteed by U.S. farm policy, i.e. loan rate. U.S. will make all adjustments to ensure price and competitors need only price just below the rate to market their entire output.	Foreign competitors now face price risks and burden of adjustment to surplus conditions. Downward flexibility in prices means no guaranteed market outlet and unlimited budget exposure on subsidies or domestic supports. Factors which will force market adjustments.

With the leadership and support of many members of this Committee, the Food Security Act of 1985 mandated the marketing loan for rice, cotton and honey and provided discretionary authority for its use for wheat, feedgrains, and soybeans. During the farm bill debate quantitative assessments of the impact of various options, including the marketing loan, were readily available. Unfortunately they were rarely in agreement. Now we have the experiences of the rice, cotton and honey industries as case studies of the marketing loan.

In each case the turnaround has been dramatic (Table 1). Total use for rice has increased by 20 percent with exports up 36 percent. Stocks have declined by 16 percent. Cotton use is up 64 percent with an over three-fold increase in exports. Honey use is up and imports, which had forced domestic honey production into government stocks in previous years, will be down by 30 percent. Stocks have declined by 11 percent, and the disparity between the prices of imported and domestic honey has disappeared.

TABLE 1.—MARKETING LOAN COMMODITIES

		84/85	85/86	86/87 [1]	Percent change
Rice:					
Domestic use	Mil Cwt.	60.5	65.8	67.0	+2
Exports	Mil Cwt.	62.1	58.7	80.0	+36
Total use	Mil Cwt.	122.6	124.5	147.0	+18
Stocks	Mil Cwt.	64.7	77.3	66.9	−13
Price	$/Cwt.	8.04	6.53	3.85	−41
Cotton:					
Mill use	Mil Bales	5.5	6.4	7.0	+9
Exports	Mil Bales	6.2	2.0	6.8	+340
Total use	Mil Bales	11.7	8.4	13.8	+64
Stocks	Mil Bales	4.1	9.4	5.5	−40
Price	Cents/lb.	57.8	56.5	51.7	−8
Honey:					
Domestic use	Mil Lbs.	262	304	323	+6
Imports	Mil Lbs.	141	135	95	−30
Gov't. Stocks	Mil Lbs.	253	274	243	−11
Price:					
Domestic	Cents/Lb.	45.5	43.0	38	−12
Imports	Cents/Lb.	35.1	42.0	38	−10
Loan Rate	Cents/Lb.	65.3	64.0	63.0	−2

[1] Projected

At the same time the trend in budget outlays has been reversed. The Administration's recent budget estimates for fiscal year 1988 indicate that total outlays for these commodities will be nearly $1.5 billion less than in fiscal year 1986.

This is in sharp contrast to the situation in grains and oilseeds (Table 2) where usage has increased relatively little and stocks remain large and are continuing to build. Additionally, CCC outlays for these crops remain in excess of $14 billion and the annual CCC costs for storage and handling is projected to reach $1.8 billion in fiscal year 1988 compared to around $400 million in fiscal year 1985.

TABLE 2.—NON-MARKETING LOAN COMMODITIES

		84/85	85/86	86/87 [1]	Percent change
Wheat:					
Domestic use	Mil. Bu.	1,154	1,045	1,105	+6
Exports	Mil. Bu.	1,424	915	1,025	+12
Total use	Mil. Bu.	2,578	1,960	2,130	+9
Stocks	Mil. Bu.	1,425	1,905	1,877	+1.5

TABLE 2.—NON-MARKETING LOAN COMMODITIES—Continued

		84/85	85/86	86/87 [1]	Percent change
Prices	$/Bu	3.39	3.08	2.40	−22
Feed Grains:					
Domestic use	Mil. M. Tons	163.2	169.8	171.2	+1
Exports	Mil. M. Tons	56.6	36.6	40.8	+11
Total use	Mil. M. Tons	219.8	206.4	211.9	+3
Stocks	Mil. M. Tons	57.5	126.4	167.5	+33
Prices (corn)	$/Bu	2.63	2.23	1.50	−32
Soybeans:					
Crushings	Mil. Bu	1,030	1,053	1,115	+6
Exports	Mil. Bu	598	740	700	−5
Total use	Mil. Bu	1,721	1,879	1,908	+2
Stocks	Mil. Bu	316	536	635	+18
Prices	$/Bu	5.84	5.05	4.70	−7

[1] Projected

Despite price declines of 22 percent for wheat, 32 percent for corn and 7 percent for soybeans, due to lower nonrecourse loan rates, stocks have continued to build and total usage of grains and soybeans is only up about 4 percent. Total grain and soybean stocks have increased by nearly one-third in 1986/87 alone. More importantly, since 1984/85 U.S. grain and soybean stocks have grown dramatically while the rest of the world has experienced only modest increases in their stocks.

[In million metric tons]

	1984/85	1986/87	Percent change
Ending stocks:			
U.S.	105	236	+225
Foreign	146	166	+14
Total	251	402	+60

Acreage adjustments for wheat, feedgrains and soybeans have been equally one-sided. While U.S. wheat and feedgrain acreage has declined by 14 million acres in 1986/87, foreign acreage has been largely unchanged. U.S. soybean acreage has declined about 2 million acres in 1986/87 while foreign acreage has increased by 3 million acres.

The excess production of our competitors has moved into world trade channels and eroded the U.S. share of world markets. While cotton and rice have experienced significant rebounds in this market share, the grains and soybean industries have not approached the share enjoyed in the early 1980's.

U.S. SHARE OF TRADE

[In percent]

	80/81	81/82	82/83	83/84	84/85	85/86	86/87
Wheat	45	48	40	38	36	29	32
Course Grains	64	61	60	61	55	44	49
Soybeans	56	60	57	50	41	49	47
Cotton	30	33	27	35	30	10	29
Rice	23	21	20	17	17	19	20

A review of the far-reaching potential of the marketing loan clearly indicates that benefits accrue throughout the food and fiber sector and the economy in general. While a great deal of attention during the debate was focused on the budgetary exposure of the proposal, the far reaching implications and costs for the overall economy of using storage and acreage programs to support prices may have been underestimated.

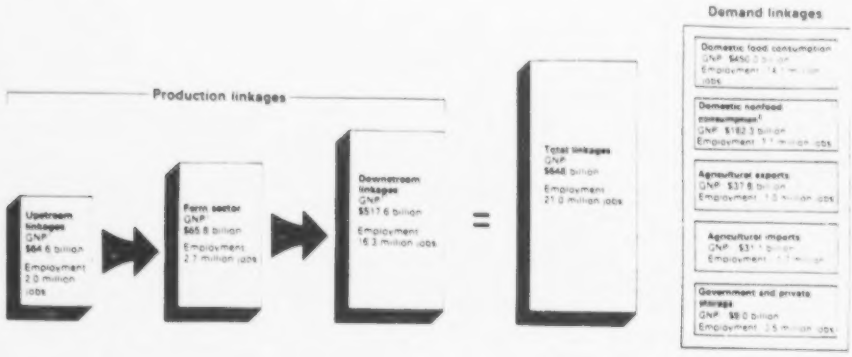
The importance of agriculture to the general economy is depicted in Figure 1. The farm sector is linked to the larger economy in a network of input purchases and product sales. Farmers buy inputs such as equipment, supplies, feed, seed, fertilizer, labor, and financing from what can be termed *"upstream"* sectors. In turn, farmers sell their products to *"downstream"* sectors which store, process, transport, manufacture, distribute, retail, consume, or export the products. For some commodities, like cotton, these chains are very long. Cotton may be ginned, spun into thread, woven into fabric, manufactured into garments, and sold in retail stores. For grain destined for storage or export, however, the chain can be short, ending with transport to a central terminal or port or in more recent times simply remaining in farm storage.

Looking at this flow so as to focus on the farm sector, $1.00 in farm activity was linked upstream to $.64 in input activity and downstream to $3.20 in further-processing activity if the product in question was ultimately consumed domestically.

This total linkage accounts for 18 percent of the U.S. Gross National Product and over 20 million jobs. The statement that agriculture accounts for 18 percent of the United States' GNP refers to the entire complex of agribusiness activities from the beginning to the end of the stream. Farming alone accounts for 2 percent of total GNP, while upstream activities account for another 2 percent and downstream activities for 14 percent.

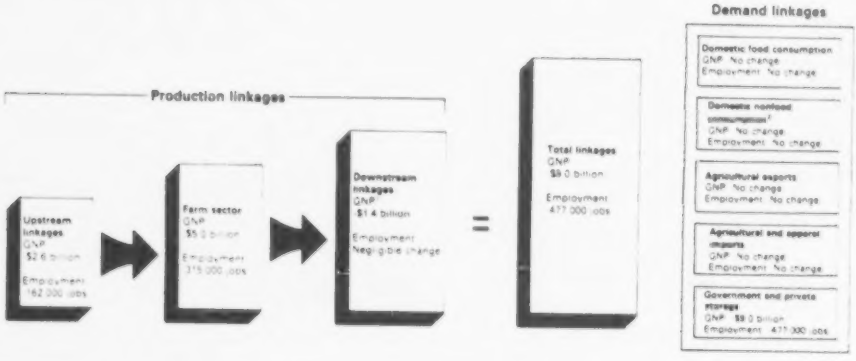
Describing these same linkages in employment terms, the 21.0 million jobs involved in meeting consumer and export demand and storing surplus farm products in 1984 were comprised of 16.3 million jobs downstream, 2.7 million jobs on the farm, and 2.0 million upstream.

Figure 1
Agricultural Sector GNP and Employment Linkages, 1984



[1]Scaled to level of demand to correct for small errors introduced in calculation.
[2]Clothing, shoes, tobacco, cut flowers, seeds, and potted plants.

Figure 2
How a Small Acreage Reduction Program Would Change Agricultural Sector GNP and Employment



[1]Scaled to change in demand to correct for small errors introduced in calculation.
[2]Clothing, shoes, tobacco, cut flowers, seeds, and potted plants.

In the context of this broader view of agriculture, the decision to idle acreage or implement storage incentives can be costly to the economy at large. Based on an analysis by the U.S. Department of Agriculture, a small acreage reduction program (30 million acres) can cost the overall economy $9 billion in lost economic activity and 477,000 jobs (figure 2). Virtually all of this lost economic activity and employment would occur in the rural communities which are supported by farmers. To the extent that such programs succeed in forcing domestic prices higher, it increases the financial incentive for importing foreign products. In 1984, imported agricultural products cost the U.S. economy about 1.7 million jobs and over $30 billion in economic activity.

The debate over whether the marketing loan will or will not work for grains and oilseeds and the likely budget exposure will continue. In the interim we find a situation in which:

U.S. grain and oilseed prices are still above market clearing levels and we are being undercut in world markets.

The U.S. is accumulating stocks rapidly to support prices at fixed loan rates. Since 1984/85 U.S. stocks of wheat and coarse grain have more than doubled while foreign stocks have only increased by 14 percent.

The total acreage idled under the annual programs and long term reserve is approaching 70 million acres.

Soybean loan rates under the provisions of the Food Security Act of 1985 will increase for the 1987 crop from levels that even now are not competitive.

Foreign consumers are being offered U.S. products at lower prices than U.S. consumers.

Budget savings are being sought by directly reducing farmer incomes or increasing the size of acreage programs.

The experience with cotton, rice and honey are evident and are not a projection. Perhaps it is time to seriously consider whether the sacrifices being made in agriculture and in the rural communities are worth the implied budget savings some attribute to *not* implement the marketing loan. Surely the burden of proof should now be with those who oppose its implementation, rather than those who have advocated its use for some time.

Mr. Chairman, I would like to conclude by commending you and the Committee for holding these hearings. We would all like to return prosperity to U.S. agriculture and while no one has a magic wand, you are to be commended for continuing to search for an answer.

STATEMENT OF HAROLD F. BREIMYER, PROFESSOR EMERITUS OF AGRICULTURAL ECONOMICS, UNIVERSITY OF MISSOURI-COLUMBIA

TARGETING AS A PRINCIPLE IN FARM POLICY

"Targeting" is a catchword with a symbolic rather than a literal meaning. From 1933 to date not only direct payments but all farm program benefits have been targeted. They have been delivered to specific recipients, not distributed at random.

But they have been John Doe payments (or Jane Doe, as we are required to add nowadays). They have been calculated and delivered impersonally, according to a formula. The formula has been on the dry numbers of acreage and yield history and operations performed. No account has been taken of the income status or needs of the recipient, and only erratic attention has been given to his or her proprietary or tenure status within the organizational structure of agriculture.

Question can be raised as to whether the income or debt status of the farmer should be taken into account in the design of farm programs. The answer comes easily. It is "No." Commodity and acreage reduction programs can do many things but they are not individualized welfare instruments. If alleviation of substandard incomes is sought, the proper device is a negative income tax. Let the progressive calculation of tax due on positive farm income convert to a similarly scaled supplement to a farmer's negative farm income.

Likewise, price support and acreage programs must be viewed as unsuitable for debt carrying assistance. U.S. agriculture badly needs a program of debt renegotiation, but that is a wholly separate legislative area.

The target of targeting is a desired structure of agriculture and the farmer's place in it. From their beginning in 1933 commodity programs have carried a heroic dedication to preserving a proprietary agriculture, sometimes called the family farm. In the more naive view, commodity price support as such was seen as helpful to hard-pressed family farmers, and to some extent the view is correct. Terms of programs

have borne on structure via concessions or protection to tenants; they still do so. In earlier years of allotments, the cotton, tobacco, and wheat (and probably peanut) programs deferred to the smallest farmers by setting a minimum allotment. Currently, a structural element in programs is the limitation to size of direct payment. It has excused the larger farmers from contributing a full quota of land retirement, and it has led to some amount of fictitious or genuine breaking up of large landholdings. Yet, on the whole, commodity and acreage programs have not been designed as structural instruments and their structural effects have been relatively small and almost inadvertent, in my judgment.

Why is targeting now an issue? Because so much money is being paid out and there is sensitivity to who gets the big chunks. Credit the Crown Prince of Liechtenstein with spotlighting the issue. In farm circles he gets publicity second only to Oliver North. When direct payments are on the order of $15 billion in a total program cost of $25 billion, the structural issue cannot be squelched. And the public sentiment favors paying out money to the hard pressed family farmer, and only him.

The rest of my remarks will be devoted only to direct payments. Both citizens generally and farm spokesmen often misunderstand the make-up of those payments. In the First Quarter 1987 issue of *Choices*, a magazine published by the American Agricultural Economics Association, I present a summary review that is telegraphic in brevity. A copy is attached.

In all the calls for targeting payments so as to take the status of the farmer into account, it is implicitly assumed that payments are what economists call transfer payments, or Treasury-fed income supplements. *My point number 1:* in fact, payments play three separate roles, and it is essential to recognize the distinction among them. Payments particularly play all three roles when markets are weak and commodity prices are determined by CCC loan rates, as is the case now. Direct payments serve to (a) reimburse the farmer for idling land; (b) offset the negative effect of low loan rates on farmers' income—and thereby subsidize both exports and the domestic use of commodities including feeding of grain to livestock and poultry; and (c) supplement incomes above a level that otherwise would prevail.

Direct payments made in 1987 clearly embody all three. Unfortunately, it is impossible to estimate the division among them with any accuracy. It is worth noting, though, the prevailing differences in point of view. I noted above that payments are often regarded as solely income supplements, role (c). Farmers, though, see them as reimbursement for services rendered, a payment for idling of land, role (a). As an economist I insist that a sizable fraction of payments being made on exported grain is an offset to reduced loan rates and a subsidy to export and to livestock feeding, role (b).

At this point I make *point number 2.* It is that targeting in the sense of scaling payment rates up or down is appropriate only to the third role for direct payments. The scaling idea does not fit land idling. An acre idled should draw the same reimbursement irrespective of size of farm.

These days, loan rates are so low that they scarcely provide any reward for a farmer's taking part in acreage programs and idling land. The reward comes from payments. The sensible course is just to make those payments as straight per-acre rent—paid diversion. Pay the same rate to everyone, so as to bring farmers of all sizes into the program. After all, if we really want to reduce production the larger farmers must be brought in.

Nor is there any good reason to depart from a straight payment rate per bushel or pound for that portion of payments that is an offset to deliberately reduced loan rates.

Part of the $15 billion being paid out is truly of the nature of an income supplement. It lifts incomes higher than they could possibly be in view of present world oversupply conditions, or under a more conservative program design. Let's say that a third of the total, or $5 bilion, is of this nature—or use $3 billion if one prefers. That part can readily be made available on a scaled or targeting principle. Although many schemes have been advanced I offer only two ideas, each simple. One is that the payment rate be scaled according to size of a farmer's operation, with the full rate paid for moderate sized units and a diminishing rate for larger units. Size can be measured in various ways as, for example, the dollar value of production or sales, or by factoring (aggregating) the farm's normal production using ASCS program data. My second suggestion is to confine this income-supplement portion of direct payments to farm operators. In a sense, commodity programs are an appropriate source of stabilization aid for owners; let income supplements go to operators.

All I have said surely implies that I would confine all payments to farmers who take part in programs; and I would continue to require sizable acreage reduction.

This leads to my *point number three*, which is also a plea: when federal dollars are paid out, the recipient must do something to qualify for them. I argue strongly against the 0-92 option, and against any proposal to abandon acreage reduction programs. My argument is moral-political. After 54 years of observation I am convinced that two program criteria override all others. One is to do efficiently what a program is supposed to do. The second is to win and hold public acceptance. Citizens object to giant payments to anyone from Liechtenstein or, for that matter, from California; and it rebels at paying farmers for doing nothing. These two features of citizen psychology dare not be disregarded.

Finally, everything I have said applies only to programs made in the setting of the later 1980s. If conditions were to turn around so that acreage and price support programs would do no more than give a little boost to otherwise strong markets, as they did in the mid-1970s, my comments would no longer be relevant. I am speaking to the times.

As a postscript, questions can be arised as to workability, cost, etc. There is not time to examine details. I feel confident that paid diversion can increase the effectiveness of production control, especially if cross-compliance be attached. I see no merit in pushing grain prices so low as to add to the size of deficiency payments. And even my modest role (c) targeting would save a little money. I believe prudent redesign can be both feasible and cost-saving.

[Reprint from *CHOICES*, American Agricultural Economics Association, First Quarter]

Targeting Farm Program Benefits

Our CHOICES panel focuses on one of the most sensitive issues in farming. It is not a new issue. As Harold Breimyer reminds us, the question of tying farm program payments arose in the early years of the commodity programs. Jim Johnson and his colleagues, drawing on the most complete data set available, shows how direct program payments were distributed in 1985. And Dean Kleckner, Dan Glickman, H.O. Carter, and Rudy Boschwitz describe the issue from their perspectives)—The American Farm Bureau Federation, the Congress, the University of California (Davis), and the Senate.

Because of the importance of the issue, CHOICES invites you to share your reactions with other readers by sending a letter to CHOICES at 12708 Oak Farms Road, Herndon, VA 22071.

Little Original Under Farm Policy Sun

(By Harold F. Breimyer, Professor and Extension Economist Emeritus, University of Missouri-Columbia)

Little is original under the farm policy sun. The 1985 Farm Law, enacted after two years of rhetoric calling for a new direction in farm policy, is distinctive not for new techniques but for a major rebalancing among the old.

Most notable is an unprecedented reliance placed on direct Treasury payments to farmers. In the new law direct payments are not only far larger than ever before, but they incorporate to far greater degree an implicit subsidization not only to exports but also to livestock and poultry feeding.

Direct payments were advocated in the earliest years of farm programs. Advocates held that if farmers' incomes were too low, the sensible thing to do was to pay out Treasury money.

However, John D. Black and other architects of programs objected, partly on moral grounds. Even more they believed payments proportionate to farm size would add to oversupply of commodities, setting a ratcheting in motion wherein each further depression in prices would require bigger payments. Moreover, Black and others preferred commodity adjustment, and they wanted to use payments to induce individual farmers to participate.

The outcome was a compromise. Payments then and since have variously served to bolster farm income and pay for acreage reduction.

As payments under the 1985 law balloon while commodity markets are saturated, calls are heard once more to give up on commodity management and just pay out dollars to beleagured farmers. Some advocates ask that payments be targeted to preferred categories of beneficiaries. Publicity about multimillion dollar individual payments strengthens their case.

MIXED OBJECTIVES AND MULTIPLE ROLE

In order to examine the issues in direct payments, a starting point is to set aside special-purpose payments such as indemnities in crop insurance, cost-sharing for carrying out conservation practices, and the occasional disaster payments. They are not considered here.

Other payments under the current program combine inducement and reward for idling land; supplement of farmers' income, which applies particularly when commodity management falls short; and an implicit subsidy to all utilization of a commodity, both in foreign trade and domestically.

Payments are offered for idling land according to two sharply different principles. The first is just payment of the equivalent of rent. The Conservation Reserve is straight rental. So is the paid-diversion option in several commodity programs. Money, or commodity in-kind, is paid at a per-acre rate for taking cropland out of production.

The second principle is as complex as the first is simple. Idling of land is induced by a promise that it market price proves to be below a specific target price, the farmer will receive a deficiency payment. The target price level, and therefore the size of the obligation for deficiency payment, is calculated from some concept, however vague, of what farm income ought to be. It is a system-wide, aggregate concept.

At this point ambiguity sets in. The deficiency label reeks of the transfer payment idea. According to it, farmers get the payments because their incomes are to low. Hence, in the popular image, direct payments are transfer payments, a bounty to farmers. Hence, too, the objection to giant size of some individual payments.

Farmers and program-makers look on direct payments primarily as a return for idling land. Manifestly the payments, or promise of them, serve this second purpose.

But more ambiguity appears. Payment are contingency in nature. They will be made only if the acreage reduction for which they pay is not fully successful.

A sidelight is that if the program actually were to lift market prices to the target level, participants would get no differential benefit, and the free-rider syndrome would apply. Contrariwise, and paradoxically, only a prospect of non-success makes it possible for deficiency payments to play the dual role of inducing acreage reduction and themselves contributing to guaranteed minimum incomes.

But that is not all. Insofar as deficiency payments (or promise of them) constitute a reward that brings farmers into programs, a limit to payment size discourages the larger farmers from participating. Anticipating this quirk, writers of recent farm laws provided that to whatever degree a limit takes effect, the farmer is excused from further idling of land.

The outcome is that smaller farmers contribute disproportionately to land idling. Large farmers get a cap on their idled acreage, yet are eligible for support loans on all their production. If the program is at all successful, they realize the higher price on all their larger output.

IMPLICIT SUBSIDIZATION

As though the features of direct payments have not been complicated enough these 50 years, drafters of the 1985 farm law added, or amplified, a further feature. More than ever before, commodity loan rates were dropped low for the specific purpose of stimulating utilization. It promotes both foreign sale of export commodities and domestic utilization, too—so significant to feeding of feed grains and soybean meal to livestock and poultry. It's enough to cite the poetic line about "Oh, what a tangled web we weave . . ." though any deception arises from complexity, not by design.

SUMMARY AND AN ATTEMPT AT SYNTHESIS

During most of the half-century of farm programs, storage loans have been viewed as the principal instrument of commodity programs. Deficiency payments were only incidental supplements and did not generate much hubbub. To be sure, they were recognized as an additional attraction that would help bring land into a reduction program. As such they were regarded as less costly to government than outright rental, because they were contingency and would not have to be paid in a good price year. Rents, by contrast, would always be paid.

Direct payments are so much more in the spotlight now because so many more objectives have been hung on them. Also, under the current law and in the present setting, they are so very costly. A synthesis of the component parts of direct payments is attempted here, as a starting point for analyses that are needed preparatory to any revision of the 1985 farm law.

So long as the farm economy remains far out of balance, a case can be made for addressing acreage reduction as such, separating it from deficiency payments. Acreage reduction can be brought about by mandatory allotments or by voluntary, straightforward, land rental. Rental programs, in turn, can be non-commodity-specific, as the Conservation Reservation Reserve, or paid diversion commodity by commodity. Rental payments in either case would presumably be at a minimum rate. Their size would not be subject to a limit, as participation is sought from large as well as smaller farms.

If land for idling is rented outright, deficiency payments are confined to two roles. One is to offset loan rates that are deliberately set at a sub-equilibrium level so as to subsidize utilization, particularly exports. This component of payments probably ought not be limited in size.

The second role is the one that is truly consistent with the term, deficiency. If a further contribution to farmers' incomes is sought, payments can be made or increased for the purpose and may well be targeted. It might be supposed that this component of payments would be designed to be of most aid to moderate sized, full-time farms that are in severe income trouble. In any case, the targeting idea is appropriate.

To all this synthesis, a major caveat must be added. If prosperity were to return to agriculture, so that modest acreage programs would restore acceptable commodity prices, the rationale for direct land rental weakens. In that case deficiency payments as contingency might be adequate. They would be highly saving of government cost.

STATEMENT OF CARROLL G. BRUNTHAVER, PRESIDENT, SPARKS COMMODITIES, INC., MEMPHIS, TN

DECOUPLING OF DEFICIENCY PAYMENTS AND PERMITTED ACREAGE PLANTINGS

Mr. Chairman, members of the Senate Agricultural Committee. I appreciate the opportunity to meet with you to discuss the concept of "decoupling" as it relates to agricultural production ajustment programs.

There are many types or visions of decoupling ranging from "pure" acreage decoupling to program decoupling.

Acreage decoupling would authorize deficiency payments for a program without requiring the planting of the particular crop. The proposed 0-92 is a limited application of the acreage decoupling where only grass or fallow can be used to replace the program crop on permitted acreage.

Rice decoupling means that the deficiency payment is fixed at a specific amount and does not change with the average price received by farmers.

Program decoupling relates to the phase out of deficiency payments over time.

Currently producers become eligible for deficiency payments by doing three things:

1. sign-up for the program,
2. idling required ARP acreage, and
3. planting at least 50% of the permitted acreage for reduced payments.

With an acreage decoupled program, the producer need only sign-up and idle the ARP acreage (i.e. base—ARP). The permitted acreage may be planted to any crop including other program crops, grass or left idle.

For purposes of this discussion, I will concentrate only on pure acreage decoupling. We are not addressing haying and grazing of the permitted acreage or the phasing out of payments or changing the ARP requirements or the level of the payments. All of these are separate issues. The question is, "should the law require planting of the specific program crop on the permitted acreage?"

The advantage of coupled payments (a continuation of past practices) is more precise control of planted acreage of specific program crops.

Without decoupling, the program administrator can control more precisely with ARP and planting requirements, the planted acreage of a program crop. The question is whether the program administrator can more accurately judge the planted acreage requirements of a particular crop better than the combined judgement of thousands of individuals evaluating, through the market place, the expected supply and demand for a given crop. Coupled payments also gives the illusion that farmers are doing something for their payments. Without that illusion, the payments take on more the appearance of welfare payments.

The advantages of acreage decoupling are increased production efficiency and a more accurate transmission of market signals to the production decision.

PRODUCTION EFFICIENCY

Each farm in the US is different. Each producer has different land, equipment, capital resources and talent. As farming operations change from livestock to crops, as farm operators change, as capital resources change, as production practices change with new technology, as demand changes; the need to change cropping patterns from some historic base should be evident.

Currently, deficiency payments have become so large relative to total net income that producers have no real choice but to participate in the Federal Farm Programs. The non-compliers net return per acre has dropped dramatically compared with the participator with the advent of the 1985 Act (see following Table). The difference is expected to widen further with the 1987 crop as expected deficiency payments increase.

FARM NET RETURN PER ACRE

[Comparison of Government Program Participator and Non-Participator]

	1981	1982	1983	1984	1985	1986	1987
Corn:							
Non-Participator	92.25	128.38		102.49	97.30	28.92	21.50
Participator		115.16		130.28	133.00	130.79	200.36
Ratio Particip/Non-Partcip		0.90		1.27	1.37	4.52	9.32
Grain sorghum:							
Non-Participator	62.96	60.93		45.36	53.41	29.55	20.13
Participator		58.08		65.54	72.19	81.55	80.14
Ratio Particip/Non-Partcip		0.95		1.44	1.35	2.76	3.98
Barley:							
Non-Participator	77.38	77.56		77.82	51.00	37.74	32.55
Participator		88.01		80.09	71.08	80.46	83.73
Ratio Particip/Non-Partcip		1.13		1.10	1.39	2.13	2.57
Wheat:							
Non-Participator	70.93	72.03		76.14	63.50	32.12	41.26
Participator		76.62		97.70	87.20	90.64	98.88
Ratio Particip/Non-Partcip		1.06		1.28	1.37	2.82	2.40
Cotton:							
Non-Participator	94.26	159.87		161.61	144.53	42.01	50.54
Participator		185.78		222.23	240.44	178.58	188.11
Ratio Particip/Non-Partcip		1.16		1.38	1.66	4.25	3.72

If producers must participate in the farm program and if they must plant the program crop, then for all practical purposes, the adjustments in cropping patterns that should change over time to enable American farmers to be more efficient are prevented from happening. Farmers are locked into cropping patterns which were relevant 5–10 years earlier by government edict. Some farmers are prevented from planting as much corn as they economically should while others are forced to continue planting corn even when their variable cost exceeds the market price for corn in their area. Ex-dairy farmers are forced to plant soybeans because their corn base reflects hay and pasture requirements of past years. De-regulated transportation rates and changing demand patterns cannot be reflected in cropping patterns.

DISTORTION OF THE MARKET SIGNAL

US corn farmers are guaranteed $3.03 per bushel for their normal production. Market prices of other crops that are potential competitors for the farm's acreage must compete not with the relative market price for corn or wheat but with the target price for these crops plus, in many cases, the producer's desire to increase his program base and yield for future years.

Decoupling means that producers will compare market signals in determining which crop mix to plant rather than target prices for program crops and market prices for non-program crops.

The best recent example of the type of distortion that can occur is oats. Not only are oats prevented from being planted on the permitted acreage of any program crop without loss of payments but farmers were also prevented from planting oats on any of their other acreage in excess of their oat base acreage. If the farm's oat base was zero, the producer could plant no oats without losing all program benefits

even though the price of oats in the US is high enough to encourage imports from Finland and Sweden.

The market signal could not operate because of arbitrary government rules. The modified cross compliance rule has now been lifted after the Senate threatened to change the law, but the rules still prevent producers from planting oats on permitted acreage without payment loss. In other words, the law forces producers to plant corn even though the corn carryout will exceed 5 billion bushels. It forces producers to plant wheat even though it may not be their best crop and the wheat supply this June will be 4.1 billion bushels, nearly double the 1974 supply, and yet prevent producers from planting oats that may have to be imported.

The case for acreage decoupling is that thousands of individual farmers who understand their own situation and who act on the combined wisdom of thousands of current marketing signals can better allocate productive resources than a handful of program administrators in Washington who may not know that oats are in short supply or worse—may not care.

Acreage decoupling has nothing to do with phase in or phase out or payments or ARP or target prices or haying or grazing or loan levels. The concept has to do with who will decide and what criteria will be used to decide what will be planted on permitted acreage. The focus of the evaluation of acreage decoupling should be concentrated on that question alone.

STATEMENT OF LYNN M. DAFT, VICE PRESIDENT, ABEL, DAFT & EARLEY

LOOKING TO THE FUTURE OF U.S. AGRICULTURAL POLICY: A CASE FOR "STAYING THE COURSE"

Mr. Chairman and Members of the Committee, I am pleased to testify on behalf of a continuation of the farm policy that was established by the Food Security Act of 1985. Before I cite the principal reasons in support of this position, let me briefly note some of the considerations that are not responsible for recommending that we stay the course with this Farm Bill:

It is not because the 1985 Farm Bill is without fault or need of modification. It has imperfections that require attention, perhaps the most notable of which is the level of the soybean loan.

It is not because I expect the 1985 Farm Bill to quickly and painlessly restore equilibrium to the American farm economy. It will take time, and it will not be painless.

It is not because the present farm policy is as cost effective as I believe it could or should be, nor because benefits are shared as equitably as they might be.

Neither is it because there is a wellspring of support and commendation for the policy from the affected interests. Though I detect no clamour for radical change, the present policy is more tolerated than supported.

At this point, you might be wondering why I favor a continuation of the present policy. Before I respond, let me briefly describe my understanding of the present policy. In doing so, I want to distinguish between "staying the course" and maintaining the "status quo". Present policy provides a flexible set of program authorities for use in restoring equilibrium to the agricultural economy. It does this through sharply lowering commodity prices to make the U.S. more competitive in world markets, substituting income support (through direct payments) for price protection, and the aggressive use of acreage diversion (short- and long-term) to limit production. The ultimate objectives of the policy are to realize an agriculture that:

Makes the fullest possible use of our endowment of natural, capital, and human resources.

Is largely guided by markets in the allocation of resources.

Is competitive in world markets, markets that we seek to make more open and more orderly.

Protects agricultural interests from extreme economic instability.

Is substantially (but not totally) independent of Federal financial support and market intervention.

What is important about current policy, therefore, is where it is headed, by what means it seeks to reach that destination, and on what schedule. Within these general parameters, the present policy affords ample opportunity for making mid-course adjustments, whether by administrative or legislative direction.

I turn now to the case for "staying the course" of present policy, as I have defined it. The principal arguments are these:

The right objectives.—The objectives that are implicit in current policy continue to be appropriate. The brightest future continues to lie in the direction of an agricultural economy that is predominantly market-oriented, competitive in world markets, and dependent on Federal policy only for protection from major economic disturbance.

It's working.—There is substantial evidence that the present policy is working. Perhaps it is not working as fast as most would like, but it's working. U.S. agricultural exports have rebounded and are beginning to rise, albeit slowly. Production in some foreign markets is beginning to slacken. Brakes are being applied to domestic production to the point that stocks of most commodities have begun or are forecast to recede. Cash farm income has remained stable as Federal payments and lower production expenses have offset the effect of lower prices. Much of the unsustainable inflation that became capitalized in farm asset values has been wrung-out, at least on paper.

The absence of superior alternatives.—A principal reason that revolution comes slowly to farm policy is that the options are more limited than they might appear. A complicated set of tradeoffs is involved. At the most general level, the tradeoffs are among farm income, consumer and export prices, and budget cost. An improvement in one of these measures is accomplished only at the price of a worsening of at least one of the others. On the basis of the evidence I have reviewed, I find no reason to believe that any of the major alternatives now under consideration would result in a net improvement in these measures taken together.

The need for a stable policy.—As you know, uncertainty and dislocation are prominent characteristics of agriculture today. The influence of Federal farm policy on the sector is and will remain substantial into the foreseeable future. It is important that this be a stabilizing influence based on a constant set of policy objectives and program tools if the agricultural industry's financial interests are to have the assurance they require to proceed with investment decisions.

What does this suggest for the immediate farm policy agenda? While it offers no grounds for a radical shift away from existing policy, neither does it suggest that a hands-off approach will do. To the contrary, the changes in course that are made (or not made) over the next 3 years are likely to be at least as important to the success of this policy as was the initial design of the 1985 Act. In a sense, the greater challenges associated with the implementation of this policy are still before us. Certain issues and questions will deserve continuing attention throughout the life of the Farm Security Act: Are there ways to accomplish the principal objectives of this policy at a lower budget cost? Is the transformation of agriculture going too fast? Too slow? How do we avoid having the present high level of farm program benefits become capitalized in the value of farm assets, thus perpetuating the present high level of program dependency? If these and other questions are not addressed and appropriate midcourse corrections made, opportunities for the success of this policy—opportunities that are now beginning to show promise—will quickly fade.

Again, I appreciate the opportunity to appear before you and present these views.

STATEMENT OF THOMAS GALE MOORE, MEMBER, COUNCIL OF ECONOMIC ADVISERS

U.S. agricultural programs have resulted in enormous budgetary costs, benefits that do not reach those most in need, huge surpluses of farm products, major trade disputes with other countries, and great harm to well-functioning international markets. Programs instituted at the Federal level have distorted economic incentives sufficiently to create serious long-term problems. Programs for some commodities have imposed substantial losses on consumers. Chronic surpluses of major commodities exists throughout the world, largely because of high U.S. Government target prices and heavy subsidization of agricultural production by most other developed countries.

Despite the massive taxpayer and consumer costs of current programs, the U.S. agricultural sector faces its most severe economic crisis since the 1930s. Instability within the sector continues, with little improvement apparent in the financial condition of many family farms and rural banks. Soil erosion and the pollution of surface and groundwater with toxic waste continue with only moderate signs of relief.

Agricultural policies have become contentious issues of immense importance to all countries. The shift in U.S. agriculture from its prosperous state in the inflationary period of the 1970s to its unsettled existence in the 1980s is linked to events abroad and to the policies pursued in both the agricultural sector and the U.S. economy in general.

REFORM OF U.S. AGRUCULTURAL POLICY

The Food Security Act of 1985 and its predecessors have helped to create new problems that afflict the U.S. agricultural sector, and have failed adequately to solve some of the old problems. The fundamental flaw is that Federal farm subsidy payments are linked directly to farm production. Because farmers are paid subsidies (explicit or implicit) that are proportional to their output, they are encouraged to produce even more. Excess production must either be stockpiled by the government, dumped on world markets, or restrained through inefficient land or production restrictions.

Two of the major features of the Food Security Act of 1985 are the high target prices and the relationship between government income-support payments and production decisions. Under the act, target prices are set at high levels and are not permitted to decline until 1988 for feedgrains and wheat and 1987 for cotton and rice; furthermore, the scheduled reductions in target prices are far too small (2, 3, and 5 percent, respectively, for the years 1988, 1989, and 1990 in the case of feedgrains and wheat). The limited decoupling of government income payments and production decisions provided by the 50-92 provision is insufficient. This small step in the direction of decoupling is not expected to have any major effect on the current chronic surpluses and overcapacity within the sector.

The cornerstone of any comprehensive reform of agricultural policy is the elimination of incentives to produce for government programs rather than for the market. As long as such incentives exist, surpluses will be generated. As a consequence, the government will attempt to manage supply by acreage reduction programs, voluntary diversion, acreage set-asides, or production quotas.

Given the changes that have occurred within agriculture, the supply management bias of current programs is doomed to failure. The sector's capacity to produce under the stimulus of favorable economic conditions and large government subsidies is extremely high. As a result, the cost of agricultural commodity policies that attempt to restrain production and enhance prices through land controls are, in short, toweringly expensive. Moreover, a program attempting to limit supply by renting land from farmers, by outright purchases of farm commodities, or by mandatory supply controls cannot avoid directing its benefits to the largest producers. For a given supply reduction, most of the idled land or the eliminated production must come from the 15 to 20 percent of all producers who account for approximately two-thirds of total production.

Attempts to limit supply fail to exploit the continued growth in world food markets. Although increases in the acreage reduction and the voluntary diversion programs can provide some short-term assistance in reducing current chronic surpluses, this benefit can only be achieved by incurring other costs. These other costs include the losses imposed upon consumers, the reduction in markets for the farm supply industry, and the increase in costs for food processing and distribution. Moreover, acreage controls result in the excessive use of other inputs, which partially offsets the desired production cutback. The excessive use of chemical inputs is also partially responsible for soil erosion and the pollution of surface and groundwater. Such programs are not cost-effective in terms of government outlays.

All attempts to limit production will impede the international competitiveness of the U.S. agriculture sector, both in cost and output. In acreage reduction programs, for example, farmers must retire a certain fraction of their acreage base, e.g., 20 percent in the case of corn, to receive deficiency payments. Thus, every firm in the industry is asked to spread its total fixed cost over 80 percent of its potential output. This scheme raises the average cost of production, relative to competitors who suffer from no such constraints. Moreover, supply management policies create an artificial scarcity of farmland, bidding up its price to a higher level than otherwise would have occurred.

Finally, limiting output places the United States in the position of being the residual supplier to world commodity markets. Whatever growth occurs in world food markets is allowed to be tapped by major competitors. Moreover, the supply management bias of agricultural programs in the United States lowers the costs to other countries of subsidizing their agricultural sectors. As a result, U.S. programs operate to improve the position competitors in terms of both their access to major markets and the cost of their agricultural policies.

A COHERENT LONG-TERM AGRICULTURAL POLICY

A comprehensive policy to foster and maintain a vital and progressive U.S. agricultural sector would contain four major components: complete decoupling, targeting, resource conservation, and negotiation and trade cooperation.

Complete decoupling

Under complete decoupling, payments to farmers would not be linked to current production either through subsidies or artificially high prices. Production decisions would be based on economic incentives, not governmental policy. Set-asides and acreage reduction programs could be phased out over a specified period of time. Distortions such as intensive use of inputs would diminish, and budgetary outlays would largely be known in advance.

Decoupling could be phased in by allowing increasing discretion with regard to the use of idle land. For example, after a period of time in which idle land could not be used for any other crop, 20 percent of the land could be planted in any crop, then 40 percent, and finally 100 percent. Income support could also be decoupled from prices. Farmers should receive a known payment regardless of what they plant and the market price they receive. The income support that has been decoupled from production and prices should be phased out.

Targeting

Separating payments from production and prices would make it possible to target such transfers so as to preserve the family farm and rural communities while protecting the rural landscape. Targeted income-deficiency payments would preserve some farms unable to manage the riskiness of their operations, and would ease the costs of labor adjustment from agriculture for other farmers. Income supports targeted at those who rely more heavily on farm income and yet do not have the immediate resources for retraining, job searching, etc., would ease the inevitable pain of change and improve the long-term flexibility of U.S. agriculture.

Targeted farmers should receive income supports unconditionally. Farmers could then employ their support in whatever fashion they considered most appropriate—from retraining to remaining in farming. One possible method of targeting would be to have payments based on current acreage and historic yields with a limit to the qualifying farm size.

Resource conservation

One feature of the Food Security Act of 1985 that is in the long-run interest of the United States is the provision for placing highly erodible land in the conservation reserve. Under the 1985 legislation, lands that pose significant off-farm environmental threats—for example, water quality damage—can also be included in the conservation reserve program. It is the largest conservation program in the history of Federal agricultural policy, calling for the voluntary, gradual enrollment of 40 million to 45 million acres of land. Under this program, landowners agree not to produce on qualifying cropland for 10 years in exchange for an annual rental payment. Unfortunately, this program is hampered by competing supply management programs. In essence, the government is bidding against itself to idle farmland. Currently, most farmers are better off collecting deficiency payments or diversion payments for idling acreage under commodity programs than by idling land on a long-term basis under the conservation reserve program.

Over the period that supply constraints are being phased out, difficulties stemming from the concurrent operation of the conservation reserve program and the price-support programs must be resolved. The joint operation could be effectively managed by the introduction of a land-targeting scheme. Lands declared eligible for the conservation reserve program would be declared ineligible for the acreage reduction program.

A redesigned conservation reserve program, combined with decoupled and targeted income support, would reduce incentives for intensive land use that arise when farmers seek to increase their immediate cash incomes. Finally and most significantly, the elimination of commodity programs that connect income supports to production levels would ease the extensive and intensive use of land and other resources in production. The significant reductions in the use of pesticides and other chemical inputs resulting from these program changes would also reduce environmental damage.

Negotiation and trade cooperation

The current state of agricultural trade can be described as one on which many countries feel trapped in their attempt to secure a share of world agricultural trade. If any country reduces its export subsidies or limits its farm support, it will lose market share. Its own action will rarely be sufficient to induce a significant rise in world prices. Thus, the rewards to individual countries from unilateral agricultural policy reform often seem too little to encourage change.

Simultaneous action by many countries might break this trap. The Administration began a coordinated move to raise the issue of agricultural protectionism at the

last economic summit. How to achieve multilateral, systematic rationalization of policies across sovereign states with different resource endowments and policy mechanisms, if not policy objectives, remains a major challenge.

The difficulty of international cooperation in adjustments, however, does not excuse delay in U.S. policy reform. Some believe that the U.S. takes too many risks by moving unilaterally to embrace more liberal farm policies at home. In a world of heavily subsidized foreign farm trade competitors, this is likened to "unilateral disarmament." This argument breaks down, however, in those markets where the past tendency of U.S. policy has been to prop up world export prices with high U.S. domestic price guarantees, defended through unilateral domestic production controls. It is such policies—for example, the 1983 PIK program—which deserve to be labeled unilateral agricultural disarmament. Liberalizing such policies would be a healthy move in the opposite direction. When a large and potentially competitive low cost producer unilaterally restricts its own production and carries disproportionately large surplus stocks, it is not "arming" itself against anyone. Instead, it is helping to make affordable the farm production and export subsidies of its less efficient foreign competitors. If the U.S. were to dismantle these policies it would not be disarming itself; instead it would be disarming its competition. As a result, reform is in the self-interest of the United States and should be initiated regardless of whether trading partners act as well. Effectively reformed policies will eventually stimulate other protectionist countries to make similar adjustments.

Although sound economic grounds exist for greater market orientation even with no action by other countries, the chances of significantly reducing the degree of protection provided to U.S. agriculture are far better if coordinated moves also occur in other major agricultural exporting countries. The political feasibility of implementing decoupled and targeted deficiency payments is greatly enhanced if other industrialized countries would pursue similar actions.

Immediate reforms

We must move from our current policy to the coherent policy outlined above. To allow ample time for structural adjustment, as a first step toward long-term reform, the Reagan Administration seeks major revisions in the 1985 act in order to reduce budget exposure, provide fairness, restore a sense of proportion to agricultural policy, attempt to set loan rates at or below market-clearing levels, and move more meaningfully in the direction of decoupling production from payments. Specifically, the Administration proposes as a first step that we extend the 50-92 provision to a 0-92 provision; administratively and legislatively tighten the definition of a "person" for purposes of the payment limitations; limit the total payments to $50,000 per person; reduce target prices from 1987 by 10 percent per year through 1990; and provide more flexibility in establishing loan rates for program crops.

Under the 0-92 provision, farmers would receive payments based on historical acreage, without being required to plant the program crop on those acres. To ease the adjustment from chronic surpluses, any land that might be idled under this provision could not be used to produce any other crop. Hence, this provision does not allow total decoupling of program payments and farmer production decisions. The proposed revision simply means that participating farmers can collect 92 percent of what their income subsidies would be under full production, even though all of their land is idle. Current law required that at least half of their land be planted.

The proposed $50,000-per-person payment limitation pertains to deficiency and land diversion payments, as well as to marketing loan payments in the case of cotton and rice, and loan deficiency payments for other program crops. Under current law, the 1987 limit is $250,000. Tightening the definition of a person will achieve consistency and fairness in the application of payment limitations by closing loopholes that circumvent current legislative intent. The current loose definition of "person" has fostered a proliferation of overlapping partnerships and other farm reconstitutions in order to qualify for multiple payment limits.

The proposed reduction in target prices is expected to lead to a decline in agricultural program outlays by $13 billion over fiscal 1988 through 1990. This action would reduce the current incentive to overproduce and also contribute to reductions in the budget deficit.

If loan rates are above market prices, incentives will still remain to plant for the government and not the market. Thus, an important step in decoupling is to reduce loan rates to below market prices. Under the proposed revisions, the Secretary of Agriculture could reduce loan rates by formula (75 percent of 5-year moving average, dropping the high and low price), but superimposes a limit on how fast annual adjustments can be made to the computed formula loan rate. The current limit is 5 percent, after a special provision of 20 percent for some commodities. The proposed

revision would allow U.S. prices to be more competitive, reduce incentives to produce for the loan rate itself, and make the decoupling more effective.

Because the program for crop year 1987 has been largely determined, many of the revisions can be adopted only for years 1988 through 1990. The 0-92 decoupling provision could, however, be instituted immediately. The proposed revisions for the past 3 years of the current legislation would provide an effective transition to a more comprehensive and coherent agricultural policy.

The Administration also proposed changes in the U.S. sugar program to deal with the distortions generated by current policy. The proposed reform would lower the price-support loan rate to 12 cents a pound while providing transition payments to cane and beet producers over a 4-year period. Prices paid by domestic sugar consumers will fall as a result. By modifying the incentives that distort domestic production and consumption, U.S. sugar policy moves slowly toward a more market-oriented position.

CONCLUSION

Today's highly complex patchwork of agricultural policies has become increasingly antiquated and unproductive. Agriculture and rural communities have become so vastly different in structure and in their relationships to the domestic and world economies that the premises underlying current policies are no longer valid. Besides costing taxpayers and consumers billions of dollars and representing a significant portion of the Federal deficit, agricultural policies divert land, labor, and other resources from more to less productive uses. The huge surpluses generated in the United States and thoughout the world harm U.S. allies and less developed countries, while providing huge windfalls to powerful economic interest groups. These programs are unfair, with some individuals receiving millions of dollars from the government.

To be sure, the Food Security Act of 1985 will not yield easily to a major overhaul. These policies, after all, are tied to a long series of legislative precedents, deeply embedded goals and objectives, and the vested interests of powerful groups. Major opposition will doubtless arise to the reforms outlined here, which are in the best interest of the U.S. taxpayer and consumer. Reforming agriculture would lead to huge gains not only here in the United States but in the rest of the world.

STATEMENT OF WILLIAM K. QUARLES, VICE PRESIDENT, GOVERNMENT AFFAIRS, SUNKIST GROWERS, INC., VAN NUYS, CA

This statement is being submitted on behalf of Sunkist Growers, Inc. in connection with the Committee's March 18, 1987, hearing to seek views on the 1985 Farm Bill.

Sunkist is a non-profit agricultural marketing cooperative consisting of approximately 6,000 growers who produce citrus in Arizona and California. Varieties produced by Sunkist members are navel and valencia oranges, lemons, grapefruit and tangerines. Sunkist members primarily produce citrus for the fresh fruit market, which is packed in 66 citrus packinghouses throughout the two states. Fruit that cannot be sold fresh is used to produce a vast array of processed citrus products.

Approximately one-third of Sunkist's total volume is exported. Since fresh citrus is a perishable product, our export markets are vital to the economic well-being of Sunkist members.

Sunkist's experience with the Food Security Act of 1985 (the "Act") is limited to two programs—the Foreign Agricultural Service's (FAS's) Cooperator Market Development Program and the closely related Targeted Export Assistance (TEA) program. The Cooperator Market Development Program is addressed under Section 1126 of the Act, which sets forth the sense of Congress that the program should be used "to the maximum extent practicable" to help develop new markets and expand and maintain existing markets for United States agricultural commodities. The TEA program is authorized under Section 1124 of the Act.

Sunkist wholeheartedly concurs with and supports the sense of Congress articulated in Section 1126 relative to the Cooperator Program. For the program to have maximum results as intended by Congress, however, additional Congressional funding is vitally needed.

Sunkist participated in the Cooperator Program for many years until fiscal year 1986, when TEA was created. As a former and perhaps future cooperator participant, it is our view that the sharing of expertise and funds afforded by the Cooperator Program has greatly enhanced past market development efforts for Sunkist and other cooperators. The program has been particularly beneficial in directing coop-

erators, most of whom are inclined to emphasize short-term market opportunities, to invest in long-term commitments required to develop and maintain future market outlets. Sunkist, for example, has used cooperator funds in years gone by to develop new market opportunities in the Pacific Rim to replace sales lost in the European Economic Community as a result of illegal Mediterranean tariff preferences. This outward, long-term orientation is essential if American agriculture, which is increasingly being closed out of traditional markets, is to survive in world trade.

The one notable shortcoming of the Cooperator Program is its severely limited funding. Funding for FAS "market development"—which is the budgetary line item that includes the Cooperator Program, the Agricultural Trade Offices, market development staff and related administrative expenses—was at $45,972,000 for fiscal year 1986. In 1987, this amount was increased in a supplemental appropriation by $2,108,000 to cover increases in staff costs, for a total of $48,080,000. Given the abundance of agricultural marketing barriers and restraints abroad and the resulting need for vigorous market promotion to help overcome these restraints and maintain our overseas presence, this level of funding is plainly inadequate.

The example of Sunkist may help put this into perspective. In fiscal year 1985, Sunkist received $745,000 in FAS Cooperator funds to overcome market restraints and promote abroad. That year, the U.S. citrus industry sustained $40–45 million in damages as a result of the previously mentioned EEC Mediterranean tariff preference scheme being prosecuted under Section 301. Injury was also being sustained from EEC direct export subsidies on fresh citrus, EEC processing subsidies on citrus products, Japanese tariff and non-tariff barriers on fresh oranges, and a Korean prohibition on imports of oranges for general consumption. The export damage being sustained abroad in the aggregate virtually dwarfed Sunkist's cooperator activities.

The Cooperator Program can and will assist in promoting agricultural exports if its current budgetary constraints are lifted and program funding expanded to help meet the challenge of market barriers abroad. This Committee's help in enlarging funding for the program is accordingly requested.

It was in recognition of this funding limitation that the Targeted Export Assistance Program was conceived by Congress. Those that drafted Section 1124 of the Farm Security Act of 1985 properly understood that the California-Arizona citrus industry and many similarly situated agricultural sectors faced such wide-spread and profound marketing barriers abroad that export maintenance and enlargement would not be possible without greatly expanded market development and promotion activities.

Accordingly, under the terms of the TEA provision, $110 million in funds or an equal amount of CCC commodities was mandated during fiscal years 1986, 1987 and 1988 for market promotion to offset unfair trading practices abroad. For fiscal years 1989 and 1990, the amount of mandated funding is to increase to $325 million. "Priority" funding for all years is to be given to those commodities that have been subject to a successful Section 301 action or victimized by retaliation as a consequence of a Section 301 action. By virtue of its long-standing 301 case against the EEC, Sunkist qualifies as a priority beneficiary.

Although the TEA program is only in its second year of operation, and refinements are still being made, the program has been administered effectively with already impressive results. Indeed, many have characterized the TEA program as the "shining star" of the 1985 Farm Bill.

In the case of Sunkist, priority TEA assistance in the amount of $7.9 million for fiscal year 1986 was allocated for market promotion in the Pacific Rim countries. This money, together with Sunkist matching funds amounting to 33% of the TEA funds spent, enabled Sunkist to increase significantly its advertising and promotional budget for Japan this season. Expanded merchandising activities—which included, among other things, stepped-up in-store promotion—increased demand for Sunkist oranges by highlighting new uses for our fruit. As a result, both the volume of Sunkist shipments to Japan and the per-unit prices for those shipments have increased significantly over last year. The higher prices in Japan alone have resulted in increased grower returns in excess of $16.8 million. This is a considerable success, given that Sunkist had a smaller than normal summer orange crop with a disproportionate amount of second grade fruit due to adverse weather conditions.

Sunkist is not alone in TEA success stories. FAS has recently announced that twelve key horticultural commodities, all of which are receiving TEA assistance, posted sizeable export gains in dollar value and tonnage during the first quarter of this fiscal year compared to the same period a year ago. In terms of dollar sales, the gains were as follows:

Percentage increase in export dollar sales of certain U.S. horticultural crops

[1st Quarter of Fiscal Year 1986 vs. 1st Quarter of Fiscal Year 1987]

	Percent
1. Grapefruit, fresh	39
2. Apples, fresh	61
3. Grapes, fresh	34
4. Pears, fresh	54
5. Canned peaches	87
6. Raisins	9
7. Prunes, dried	25
8. Onions, dried	62
9. Frozen french fries	43
10. In-shell walnuts	48
11. Almonds, prepared	141
12. Still wines	44

These export gains have been attributed primarily to the aggressive promotional efforts undertaken in connection with TEA.

The export sales value of all twelve horticultural commodities referenced above was $420 million for the first quarter of this fiscal year; this compared to a sales value of $318 million during the same period of last year, or an export increase of $102 million for twelve commodities. When one considers that all horticultural commodities, including the above twelve and several others, received a total of $45 million in TEA funds for the entire 1986 fiscal year, the first quarter gain of $102 million underscores this program's impressive cost/benefit ratio. Even greater gains are expected as the TEA program becomes more established.

A good deal of credit for these successes must go to FAS, which has worked vigorously with an extremely limited staff to develop program guidelines designed to ensure program efficiency and accountability. Under their guidelines, for example, program participants are being encouraged to put up substantial matching funds which may include in-kind contributions, to ensure and reinforce industry commitment to this program. Sunkist endorses this guideline.

Another issue being reviewed by FAS for which Sunkist is particularly concerned relates to the public release of TEA proposals and marketing plans submitted in connection with TEA requests. These documents in many instances contain carefully constructed marketing and advertising strategies developed at great expense to the applicant and involving millions of dollars in industry trade. Such documents should be treated as privileged, business confidential information and not released to the public. Were foreign competitors to obtain copies of the proposed marketing activities, a preemptive campaign or counteroffensive might be launched by competitors, thereby diluting the very purpose of the TEA program. This is a very real possibility, and one that should not be allowed to occur.

Another concern, this one paramount, is that the current TEA funding level needs to be enlarged if the program is to continue being effective. As the TEA successes have become known, scores of agricultural entities have come to USDA requesting TEA assistance. Most can legitimately identify unfair trade barriers abroad that need to be overcome. Current requests for fiscal year 1987 TEA monies come to approximately $190 million, $80 million in excess of the authorized amount.

Because TEA, like the Cooperator Program, is one of the few farm programs that has shown demonstrable, positive results for American agricultural exports, this Committee is encouraged to endorse increased TEA funding authority. This would not involve additional direct budgetary outlays, since the program is being administered through generic certificates for CCC-owned stocks, rather than through cash grants. Moreover, unlike many agricultural trade programs and proposals under consideration by the 100th Congress, the TEA program is fully consistent with international obligations and is directed at market expansion, not market restriction.

In short, the Cooperator and TEA programs together, if adequately funded and aggressively administered, are certain to yield the kinds of agricultural export gains this Committee is dedicated to achieving. The Committee's fullest support for these worthy programs is accordingly urged.

○